

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1504 SCOMM 55: JNT. SPEC. COMM. ON STATE TAX POLICY, 1986-1987 1304

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

Table 1

<u>Rank</u>	<u>1960</u>	<u>1971</u>	<u>1982</u>
1	<u>Ind. Income Tax</u> \$8.9m/22.0%	<u>Invest. Earnings</u> \$78.4m/35.8%	<u>Oil/Gas Prod. Tax</u> \$1570.9m/38.2%
2	<u>Fed. Oil/Gas Leases</u> \$5.6m/13.8%	<u>Ind. Income Tax</u> \$35.5m/16.1%	<u>Royalties</u> \$1157.3m/28.2%
3	<u>Min. Lease Bonuses</u> \$4.0m/9.9%	<u>Royalties</u> \$23.9m/10.8%	<u>Oil/Gas Corp. Income</u> \$658.9m/16.5%
4	<u>Hwy. Fuel Tax</u> \$2.5m/6.2%	<u>Oil/Gas Prod. Tax</u> \$11.4m/5.2%	<u>Invest. Earnings</u> \$324.7m/7.9%
5	<u>Alcoholic Bev. Tax</u> \$2.2m/5.4%	<u>Oil/Gas Prop. Tax</u> \$10.5m/4.8%	<u>Oil/Gas Prop. Tax</u> \$142.7m/3.5%
Total	\$23.2m/57.3%	\$159.7m/72.7%	\$3864.5m/94.1%

Table 1 indicates the composition of revenue sources changed significantly over the course of the three years shown; note that no single revenue source appears in the top five for all three examples. Furthermore, petroleum revenues have become more prevalent in later years, with FY 1982 having four out of the top five revenue sources directly based on petroleum revenues and the fifth (investment earnings) being indirectly based. Finally, and most importantly, there is a greater reliance upon fewer sources with the top five sources comprising 57.3% in FY 1960, 72.7% in FY 1971, and 94.1% in FY 1982.

**Historical Petroleum Revenues
(Millions of Dollars)**

Corporate		Oil/Gas	Property	Reserve	Fed. Min.	Bonus	Rents	Royalties	Total	Total G.F.	% of Total G.F.	
FY	Non-Petroleum	Petroleum	Severance Tax	Tax	Tax	Rents & Royalties (1)	Sales	(1)	(1)	Petroleum Revenues	Unrestricted Revenues	Unrestricted Revenues
71	5.2	.9	10.5			8.6	.2	2.9	23.9	47.0	220.4	21
72	5.3	1.2	11.4			7.9	.3	3.0	24.6	48.4	219.2	22
73	5.9	.9	12.0			6.7	3.8	3.4	23.5	50.3	208.2	24
74	7.0	1.2	14.8			7.1	24.8	3.6	28.7	80.2	254.9	31
75	14.8	2.5	26.6	6.6		9.8	1.0	3.9	40.0	90.4	333.4	27
76	26.2	4.9	28.0	83.4	223.1	5.1		3.7	33.3	391.5	709.8	55
77	30.8	5.0	23.8	139.1	270.6	2.0*		2.8*	34.3*	477.6	874.3	55
78	25.1	8.4	107.7	173.0		1.0*		1.8*	149.5*	441.5	764.9	58
79	24.8	232.6	173.8	163.4		1.0*		1.6*	249.2*	821.6	1133.0	73
80	17.9	547.5	506.5	168.9		1.2*	342.4*	1.8*	688.2*	2256.5	2501.2	90
81	34.8	860.1	1170.2	143.0		1.2*	7.6*	3.7*	1118.5*	3304.3	3718.2	89
82	34.8	668.9	1581.7	142.7		17.1*	5.0*	2.1*	1157.3*	3574.8	4108.4	87
83**	35.0	235.0	1514.5	150.0		26.0*	36.6*	2.4*	1090.0*	3054.5	3630.5	84
84**	37.0	245.0	1281.3	180.0		7.0*	0	2.4*	950.6*	2666.3	3071.2	87
85**	40.0	270.0	1310.9	200.0		7.0*	0	2.4*	982.8*	2773.1	3165.9	88

* Net of Permanent Fund contribution.

** Estimate

(1) These categories are primarily composed of oil/gas revenues; however, includes some additional revenues from other minerals (mostly coal).

TABLE 2
STATE OF ALASKA - UNRESTRICTED REVENUES
TAX PORTION

(\$ millions)	FY 71	FY 72	FY 73	FY 74	FY 75	FY 76	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
Corporate General	6.1	6.5	6.8	8.2	17.3	31.1	35.8	33.5	24.8	17.9	34.8	34.8
Corporate - Petroleum	--	--	--	--	--	--	--	--	232.6	547.5	860.1	668.9
Fiduciary	--	--	--	--	.1	.1	.1	.1	.1	.1	--	--
Individual	35.5	39.1	43.4	49.2	86.9	146.2	210.4	145.7	117.2	100.5	--	--
TOTAL INCOME	41.6	45.6	50.2	57.4	104.3	177.4	246.3	179.3	374.7	666.0	894.9	703.7
Alaska Business License	5.6	6.1	6.7	7.5	11.2	19.1	23.2	21.7	28.2	4.2	5.4	5.5
Fish - Canned Salmon	3.5	2.7	1.7	1.4	1.6	1.8	3.8	5.5	6.7	4.3	5.9	8.6
Fish - Shore Based	.3	.3	.5	.9	.8	.8	1.9	2.3	3.3	7.6	11.0	8.7
Fish - Floating	.2	.2	.3	.5	.3	.5	.5	.5	1.9	2.7	3.8	5.5
Salmon Enhancement	--	--	--	--	--	--	--	--	--	--	--	2.4
Insurance Companies	3.0	3.5	3.7	3.8	4.4	6.1	8.1	10.0	10.8	10.4	10.6	12.5
Other	.4	.5	.6	.6	.7	1.0	1.3	1.6	1.9	2.1	1.2	1.4
TOTAL GROSS RECEIPTS	13.0	13.3	13.5	14.7	19.0	29.3	38.8	41.6	52.8	31.3	37.9	44.6
Gravel, Timber, Etc.	--	--	--	.3	.8	1.8	1.0	.8	1.7	1.6	2.7	--
Oil & Gas Production	10.5	11.4	12.0	14.8	26.6	27.9	23.7	107.6	173.6	506.2	1,169.9	1,581.1
Oil & Gas Conservation	--	--	--	--	--	.1	.1	.1	.2	.3	.3	.6
TOTAL SEVERANCE	10.5	11.4	12.0	15.1	27.4	29.8	24.8	108.5	175.5	508.1	1,172.9	1,581.7
Oil & Gas	--	--	--	--	6.6	83.4	139.1	173.0	163.4	168.9	143.0	142.7
Oil & Gas Reserves	--	--	--	--	--	223.1	270.6	--	--	--	--	--
Vehicle Registration	--	--	--	--	--	--	--	.2	.2	.1	.2	--
TOTAL PROPERTY	--	--	--	--	6.6	306.5	409.7	173.2	163.6	169.0	143.2	142.7
Alcoholic Beverages	4.9	4.8	5.2	5.7	6.6	7.8	8.0	7.6	7.4	7.4	8.3	9.0
Fuel Taxes - Aviation	1.6	1.5	1.3	1.6	2.8	3.0	2.5	3.3	3.4	4.0	4.1	6.3
Fuel Taxes - Highway	8.6	8.9	10.1	11.0	14.0	20.2	16.7	17.9	16.3	18.9	15.6	20.3
Fuel Taxes - Marine	.8	1.0	1.1	1.2	1.1	1.2	1.3	2.1	2.6	3.2	3.5	3.7
Tobacco Products	1.1	1.2	1.2	1.3	1.5	1.7	1.8	1.7	1.7	1.6	1.7	1.9
TOTAL SALE/USE	17.0	17.4	18.9	20.8	26.0	33.9	30.3	32.6	31.4	35.1	33.2	41.2
Estate	--	--	--	.1	.1	.2	.2	.2	.1	.2	.5	.3
School	1.4	1.5	1.6	1.6	2.2	2.6	2.6	2.4	2.5	2.6	--	--
TOTAL OTHER	1.5*	1.6*	1.6	1.7	2.3	2.8	2.8	2.6	2.6	2.8	.5	.3
TOTAL TAXES	83.6	89.3	96.2	109.7	185.6	579.7	752.7	537.8	800.6	1,412.3	2,282.6	2,514.2

*Includes disaster relief

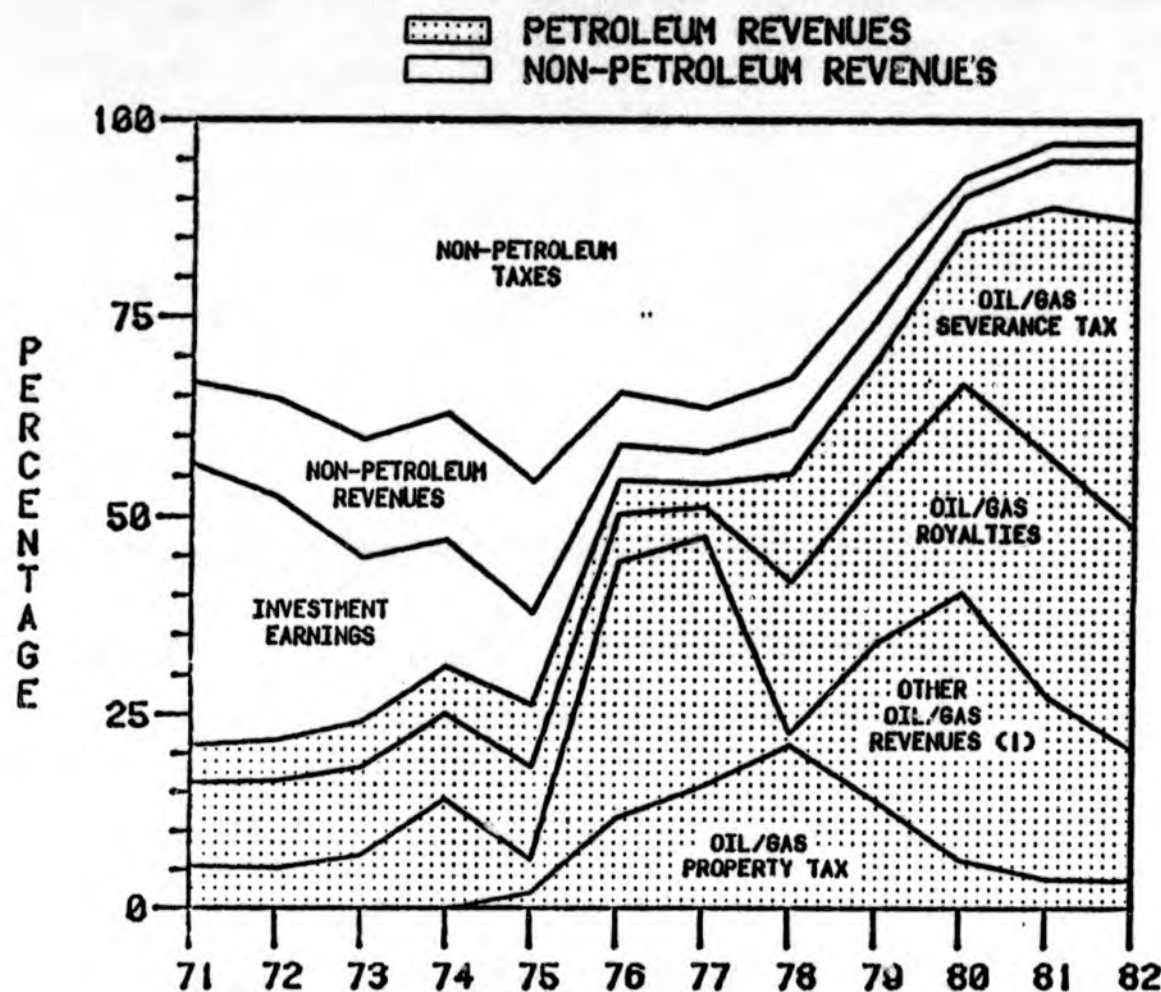
Source: Department of Revenue, Revenue Sources FY 1971 - FY 1982

Revised November 1982.

STATE OF ALASKA - UNRESTRICTED REVENUES
NON-TAX PORTION

(\$ millions)	FY 71	FY 72	FY 73	FY 74	FY 75	FY 76	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
LICENSES & PERMITS												
Business	2.7	2.8	3.2	4.1	4.2	5.1	5.5	6.8	7.5	8.1	9.1	10.8
Non-Business	6.0	6.3	6.6	6.8	9.4	11.3	10.6	12.3	12.3	10.7	12.2	13.0
TOTAL	8.7	9.1	9.8	10.9	13.6	16.4	16.1	19.1	19.8	18.8	21.3	23.8
INTERGOVERNMENTAL RECEIPTS												
Federal Shared Revenues	9.7	9.0	7.7	8.0	10.6	6.4	2.5	3.6	4.1	4.8	8.5	21.7
STATE RESOURCE REVENUE												
SALE/USE												
Bonus Sales	.2	.3	3.8	24.8	1.0	--	--	--	--	342.4	7.6	5.0
Investment Earnings	78.4	67.3	43.2	41.1	38.5	31.7	34.8	44.2	59.2	119.9	227.8	324.7
Rents	3.2	3.3	3.7	4.0	4.3	4.1	3.4	2.3	2.1	3.0	5.4	3.5
Royalties	23.9	24.6	23.5	28.7	40.0	43.3	34.3	149.6	249.2	688.2	1,118.5	1,157.3
Sale of State Property	1.0	1.4	1.7	1.4	12.2	1.9	1.8	1.9	8.4	5.7	4.8	5.2
Gravel, Timber, etc.	--	--	--	--	--	--	--	--	--	--	--	1.2
TOTAL	106.7	96.9	75.9	100.0	96.0	81.0	74.3	198.0	318.9	1,159.2	1,364.1	1,496.9
FACILITIES RELATED CHARGES												
Airports	.6	.5	.7	.6	.5	.6	.7	.8	.9	.8	1.1	1.6
Ferry System--SE	6.5	8.1	10.1	9.6	12.0	13.9	15.4	14.0	17.1	18.7	21.0	25.2
Ferry System--SW	.6	.9	.9	1.0	1.2	1.3	1.5	1.6	1.8	2.4	3.4	4.0
Other	1.9	2.2	3.8	4.3	2.1	2.2	2.7	4.0	3.1	4.1	3.7	3.6
TOTAL	9.6	11.7	15.5	15.5	15.8	18.0	20.3	20.4	22.9	26.0	29.2	34.4
SERVICES RELATED CHARGES												
Court System	1.2	1.7	1.6	1.9	3.0	3.7	3.6	2.8	2.8	2.8	2.9	3.5
Other	.2	.3	.3	.4	1.4	.7	.9	1.7	2.3	2.0	4.1	6.1
TOTAL	1.4	2.0	1.9	2.3	4.4	4.4	4.5	4.5	5.1	4.8	7.0	9.6
TOTAL RESOURCE	117.7	110.6	93.3	117.8	116.2	103.4	99.1	222.9	346.9	1,190.0	1,400.3	1,540.9
Miscellaneous Revenue	.7	1.2	1.2	8.5	7.4	3.9	3.9	3.9	7.2	6.7	5.5	7.8
Total Unrestricted												
Non-Tax Revenue	136.8	129.9	112.0	145.2	147.8	130.1	121.6	249.5	378.0	1,220.3	1,435.6	1,594.2
Less: Native Claims Payments	--	--	--	--	--	--	--	22.4	45.6	131.4	--	--
TOTAL NET UNRESTRICTED												
NON-TAX REVENUE	136.8	129.9	112.0	145.2	147.8	130.1	121.6	227.1	332.4	1,088.9	1,435.6	1,594.2
Total Unrestricted												
Tax Revenue	83.6	89.3	96.2	109.7	185.6	579.7	752.7	537.8	800.6	1,412.3	2,282.6	2,514.2
TOTAL UNRESTRICTED REVENUE	220.4	219.2	208.2	254.9	333.4	709.8	874.3	764.9	1,133.0	2,501.2	3,718.2	4,108.4

HISTORICAL COMPARISON OF REVENUE SOURCES AS A PERCENTAGE OF GENERAL FUND UNRESTRICTED REVENUES



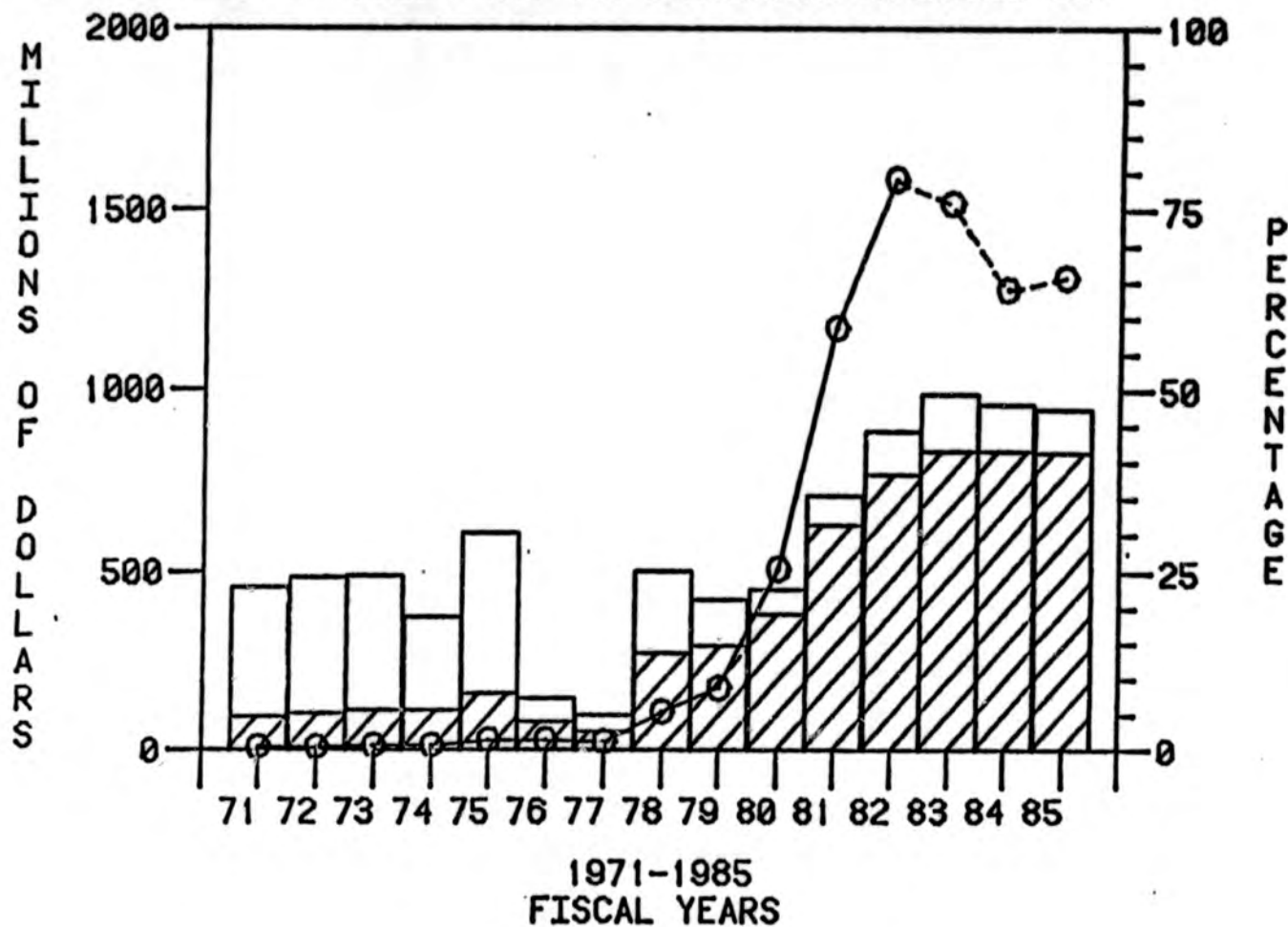
FY 82 DETAIL PERCENT \$(MILLIONS)

2.0%	\$120.0M
2.1%	\$80.2M
7.0%	\$324.7M
38.5%	\$1501.1M
28.2%	\$1157.3M
16.6%	\$692.5M
3.5%	\$142.7M
100.0%	\$4108.4M

(1) INCLUDES FEDERAL MINERAL REVENUES, MINERAL RENTS, RESERVES TAX, BONUS SALES, AND CORPORATE-PETROLEUM INCOME TAX.

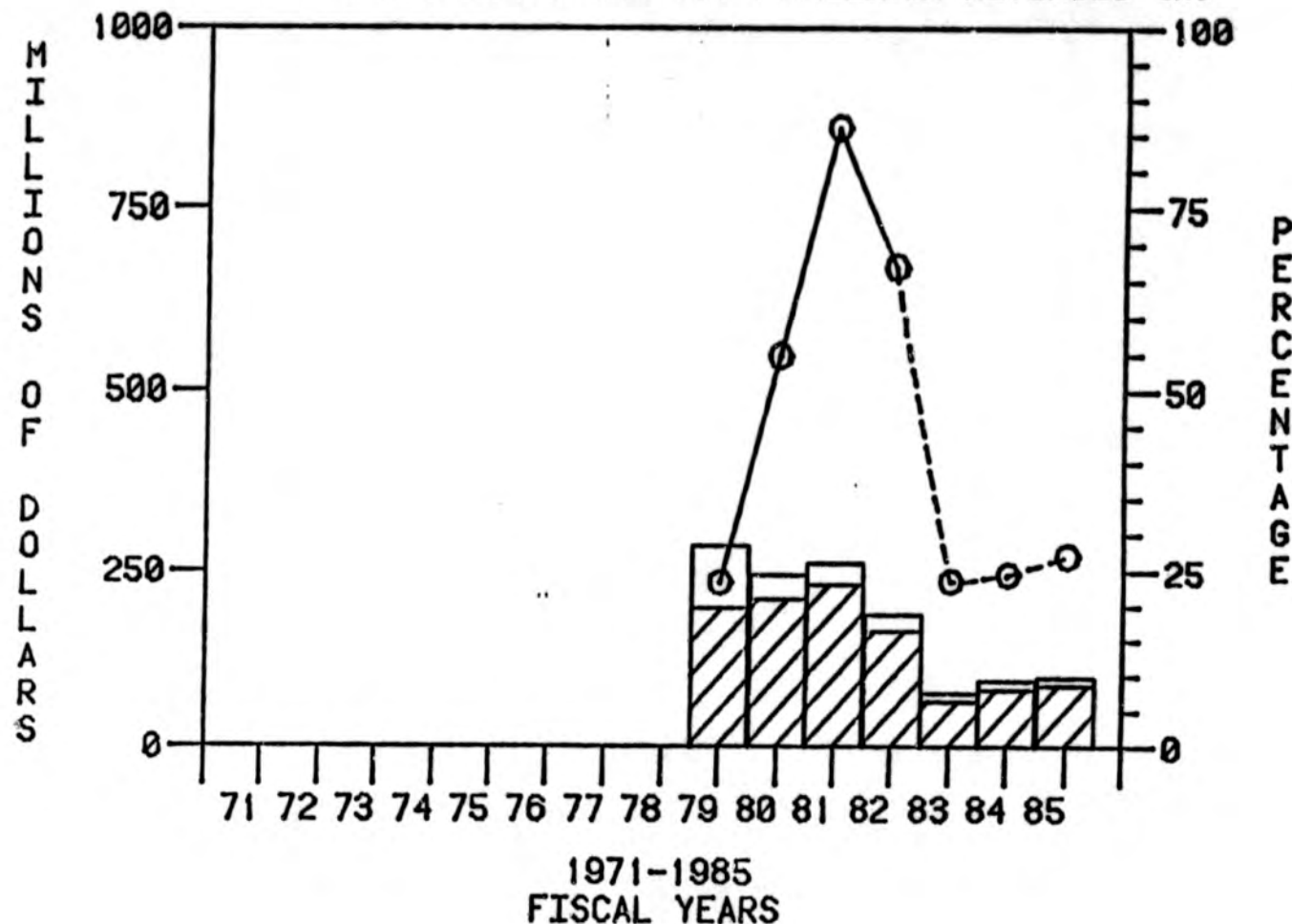
HISTORICAL COMPARISON OF OIL/GAS PRODUCTION TAX VS. TOTAL GEN. FUND UNRESTRICTED REVENUES AND TOTAL GEN. FUND PETROLEUM REVENUES

- ACTUAL UNRESTRICTED REVENUES (MILLION \$)
- ESTIMATED UNRESTRICTED REVENUES (MILLION \$)
- ▨ PROD. TAX VS. UNRESTRICTED REVENUES (%)
- ▨ PROD. TAX VS. PETROLEUM REVENUES (%)



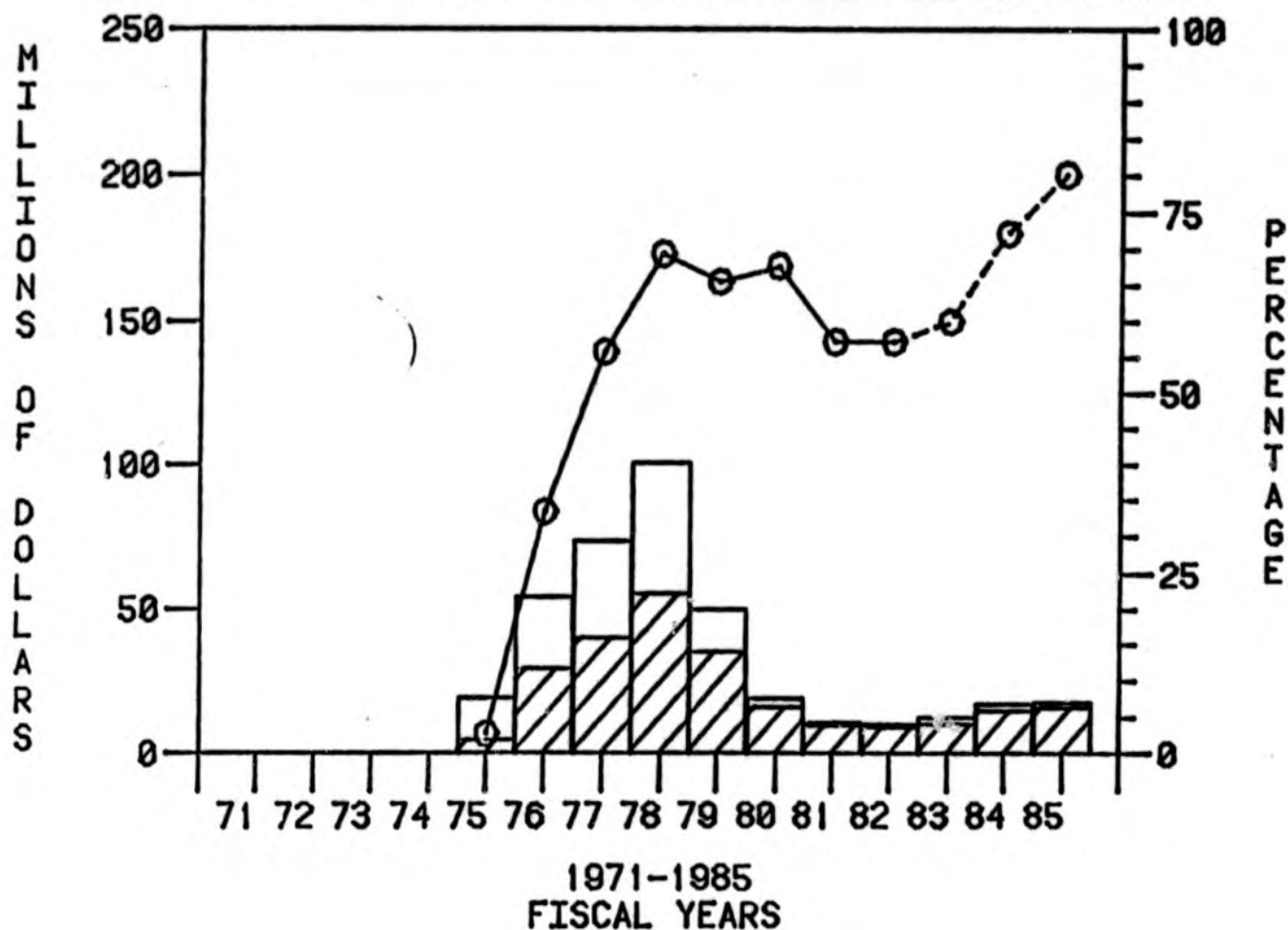
HISTORICAL COMPARISON OF PETROLEUM CORPORATE TAX VS. TOTAL GEN. FUND UNRESTRICTED REVENUES AND TOTAL GEN. FUND PETROLEUM REVENUES

- ACTUAL UNRESTRICTED REVENUES (MILLION \$)
- - -○ ESTIMATED UNRESTRICTED REVENUES (MILLION \$)
- ▨ PET. CORP. TAX VS. UNRESTRICTED REVENUES (%)
- PET. CORP. TAX VS. PETROLEUM REVENUES (%)



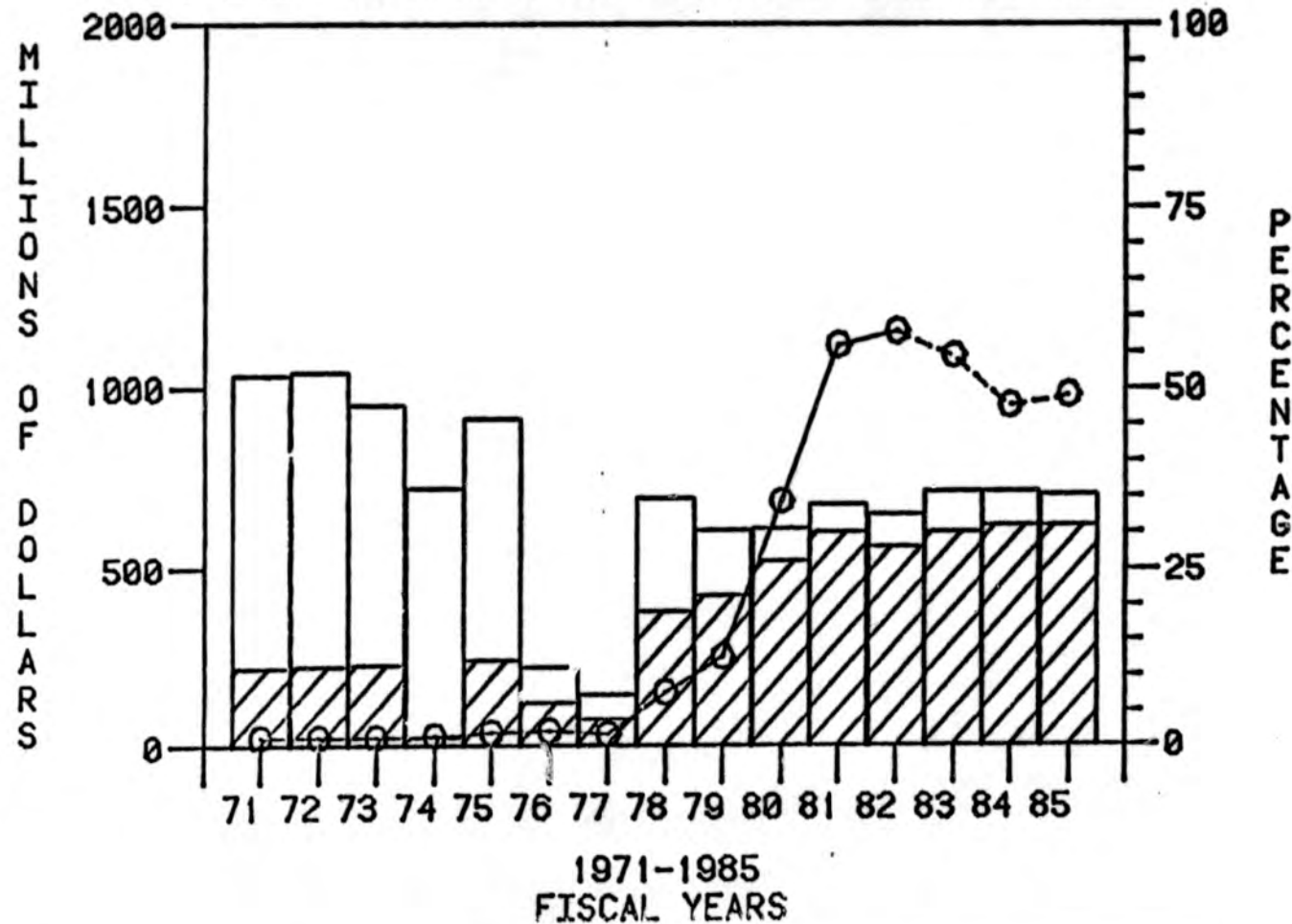
HISTORICAL COMPARISON OF OIL/GAS PROPERTY TAX VS. TOTAL GEN. FUND UNRESTRICTED REVENUES AND TOTAL GEN. FUND PETROLEUM REVENUES

- ACTUAL UNRESTRICTED REVENUES (MILLION \$)
- ESTIMATED UNRESTRICTED REVENUES (MILLION \$)
- ▨ PROPERTY TAX VS. UNRESTRICTED REVENUES (%)
- PROPERTY TAX VS. PETROLEUM REVENUES (%)



HISTORICAL COMPARISON OF OIL/GAS ROYALTIES VS. TOTAL GEN. FUND UNRESTRICTED REVENUES AND TOTAL GEN. FUND PETROLEUM REVENUES

- ACTUAL UNRESTRICTED REVENUES (MILLION \$)
- ESTIMATED UNRESTRICTED REVENUES (MILLION \$)
- ▨ ROYALTIES VS. UNRESTRICTED REVENUES (%)
- ROYALTIES VS. PETROLEUM REVENUES (%)



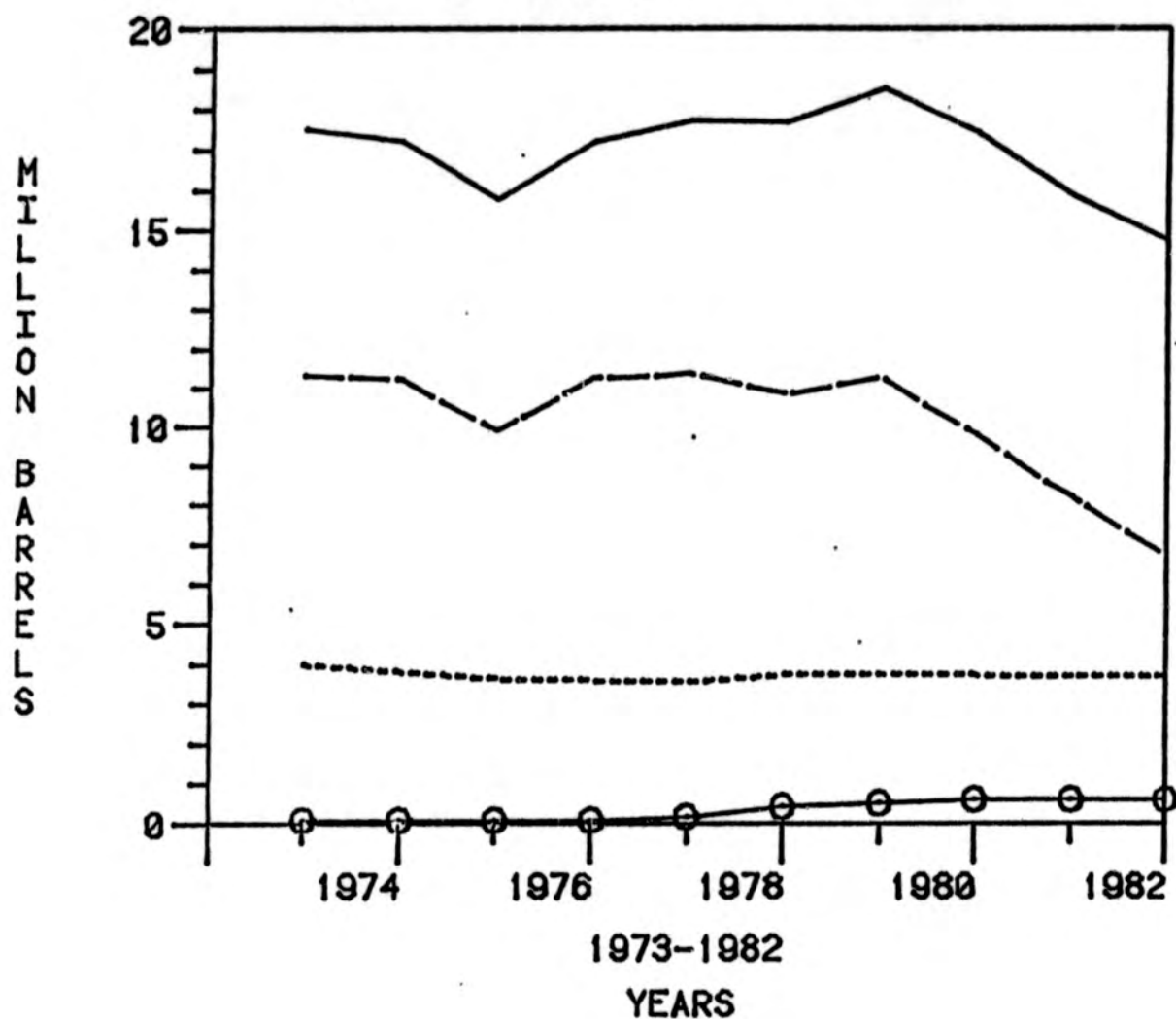
OIL AND GAS TAX
REVENUES RECEIVED DURING THE
FISCAL YEARS ENDING JUNE 30TH
(\$ MILLIONS)

	'71	'72	'73	'74	'75	'76	'77	'78	'79	'80	'81	'82	'83
Corporate Income Tax AS 43.21									232.6	547.5	860.1	668.9	
Properties Production Tax AS 43.55	10.5	11.4	12.0	14.8	26.6	27.9	23.7	107.6	173.6	506.2	1169.9	1581.1	1493.3
Exploration, Production and Pipeline Transporta- tion Property Tax AS 43.56					6.6	83.4	139.1	175.0	163.4	168.9	143.0	142.7	152.6
Regulation and Conservation Tax AS 43.57						.1	.1	.1	.2	.3	.3	.6	.4
Severance and Valorem Tax AS 43.58							(1)223.1	270.6					

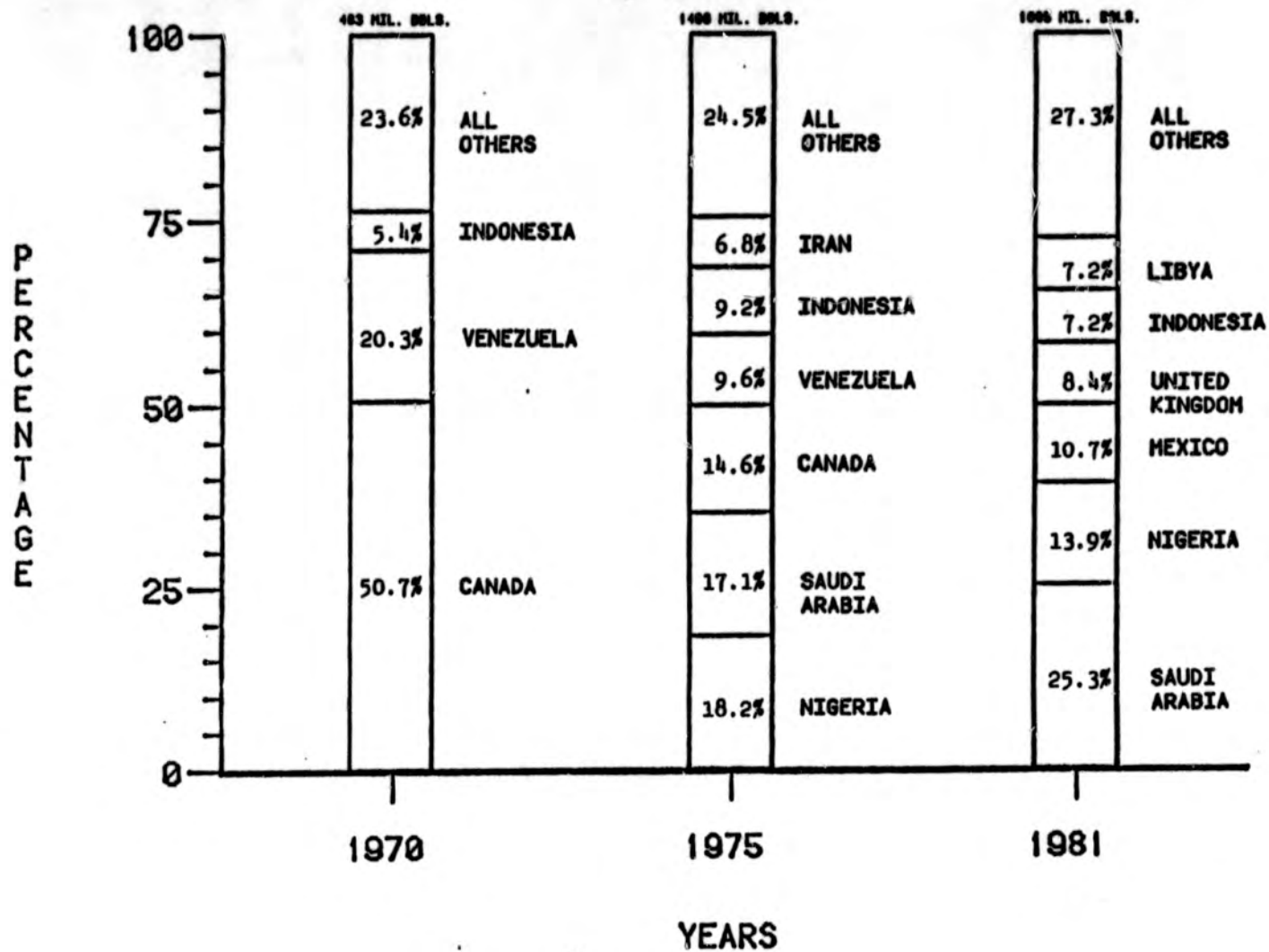
(1) The taxpayers were allowed to claim these amounts as credits against their production tax obligations under AS 43.55. Therefore, the recorded revenue from AS 43.55 is to that extent significantly less during the period of June 1977 through February 1980.

HISTORICAL COMPARISON OF OIL PRODUCTION

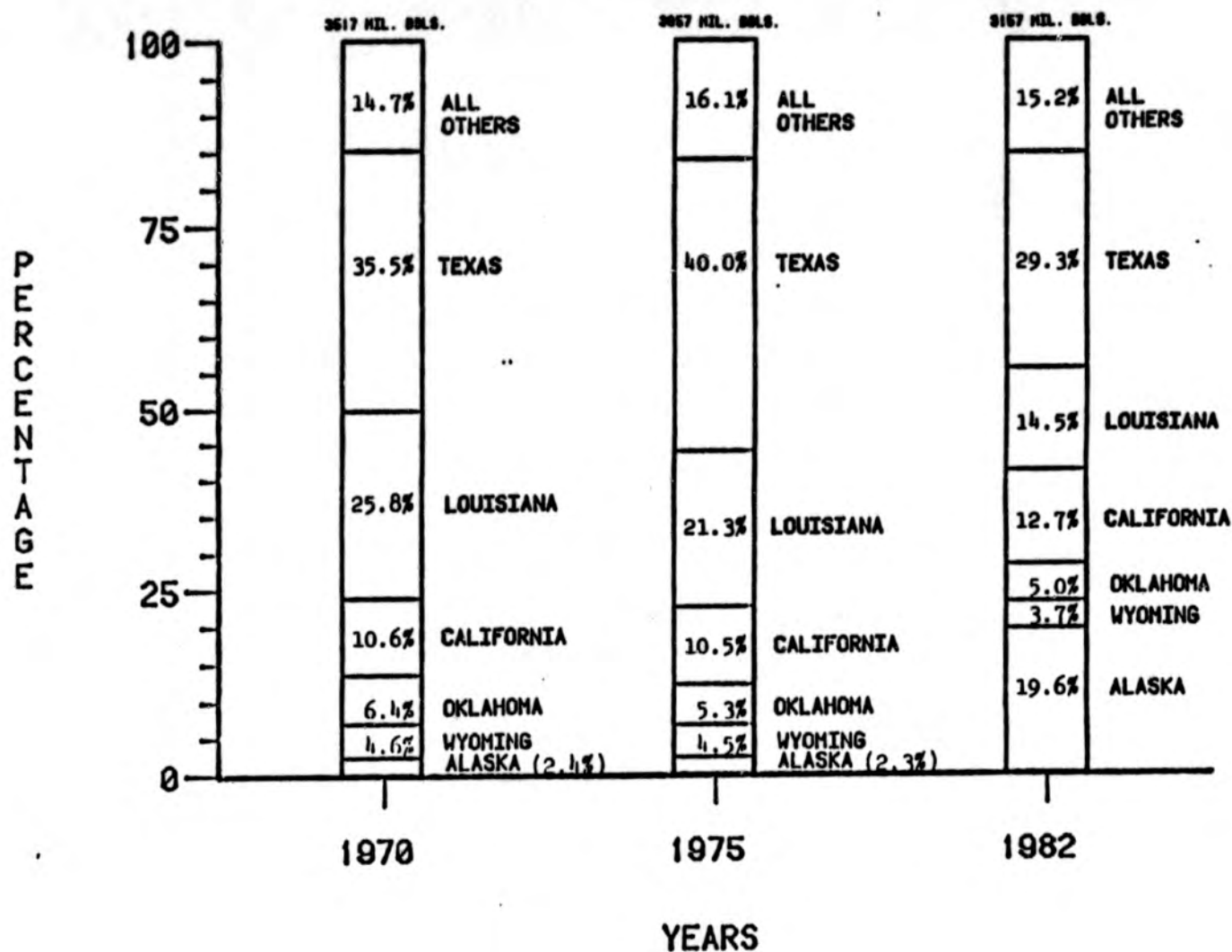
— WORLDWIDE (NON-COMMUNIST)
- - - OPEC
- - - USA
○ — ○ ALASKA



COMPARISON OF CRUDE OIL IMPORTS INTO THE U.S., BY COUNTRY OF ORIGIN



COMPARISON OF CRUDE OIL AND NATURAL GAS PRODUCTION, BY LEADING STATES



COMPARISON OF STATE PETROLEUM PRODUCTION TAXES

This report is by no means an in-depth analysis on the subject, but provides a brief description of petroleum taxes and tax rates, petroleum production, and revenue collections. The material for this report was obtained for the most part from Petroleum Industry Taxes and Commerce Clearinghouse's State Tax Guide.

PETROLEUM PRODUCTION: 1982 (Barrels/Day)

1.	Texas	2,542,000
2.	Alaska	1,700,000
3.	Louisiana	1,259,000
4.	California	1,103,000
5.	Oklahoma	436,000
6.	Wyoming	325,000
7.	Kansas	195,000
8.	New Mexico	194,000
9.	North Dakota	126,000
10.	Mississippi	95,000

Source: U.S. Energy Information Administration

	<u>TOTAL TAX REVENUES: 1982</u> <u>(Thousands of Dollars)</u>	<u>PETROLEUM PRODUCTION</u> <u>TAX REVENUES: 1982</u> <u>(Thousands of Dollars)</u>	<u>% OF</u> <u>TOTAL TAX</u> <u>REVENUES</u>
1.	California 21,818,694	5,303	0.02
2.	Texas 9,099,849	2,373,847	26.09
3.	Louisiana 3,127,229	968,711	30.98
4.	Oklahoma 2,712,960	742,700	27.38
5.	Alaska 2,539,193	1,571,600	61.89
6.	Mississippi 1,462,293	114,599	7.84
7.	Kansas 1,442,737	1,013	0.07
8.	New Mexico 1,227,798	353,248	28.77
9.	Wyoming 762,533	287,763	37.74
10.	North Dakota 532,631	169,225	31.77

Source: U.S. Bureau of the Census

TEXAS

Tax	Tax Rate
Oil Production Tax	4.6% or 4.6¢ per barrel
Gas Production Tax	7.5% of market value
Pipeline Tax	3/16 of 1¢ per barrel

Oil Production Tax - levied on all oil produced in Texas at 4.6 percent of market value or 4.6¢ per barrel of 42 standard gallons of oil produced, whichever rate results in the greater amount of tax.

Gas Production Tax - imposed on the market value of gas produced and saved within Texas at a rate of 7 1/2 percent, except that tax on sweet and sour natural gas shall not be less than 121/1500 of 1¢ per 1,000 cubic feet. The same rate is imposed on liquid hydrocarbons and condensate recovered from gas produced.

Pipeline Tax - imposed on crude petroleum transported in the state in the amount of 3/16 of 1¢ on each barrel of 42 standard gallons.

Revenue Collections (thousands of dollars)

Revenue Title	1975	1976	1977	1978	1979	1980	1981	1982
Oil Production Tax	402,553	429,105	426,373	435,223	464,820	783,772	1,288,669	1,315,131
Gas Production Tax	257,325	364,588	474,318	517,844	554,354	734,246	901,932	1,057,057
Pipeline Tax	2,211	2,210	2,110	1,983	1,843	1,919	2,285	1,659
Rents & Royalties	171,099	227,768	316,186	373,089	342,836	527,751	777,984	NA

LOUISIANA

Tax	Tax Rate
Oil Severance Tax	12.5 % of value
Gas Severance Tax	7¢ per 1,000 cubic feet

Oil Severance Tax - 1.25 percent of value at the time and place of severance. Such value is the higher of (1) the gross receipts from the first purchaser less trucking, barging and pipeline fees and charges, or (2) the posted field price. In the absence of either of these, the value is the severer's gross income from property computed for depletion purposes. Wells incapable of producing more than 25 barrels of oil per day which also produce at least 50 percent salt water per day, 1/2 of the above rate. Wells incapable of producing more than 10 barrels of oil per day, 1/4 of the above rate.

Natural Gas Severance Tax (per 1,000 cubic feet) - at 15.025 lbs. pressure per square inch at 60 degrees F, \$.07. From oil well with 50 lbs. pressure per square inch gauge or less, \$.03. From well incapable of producing average of 250,000 cubic feet per day, \$.013. A tax credit is allowed on gas used or consumed by manufacturers in excess of 25,000 cubic feet.

Revenue Collections (thousands of dollars)

Revenue Title	1975	1976	1977	1978	1979	1980	1981	1982
Oil Severance Tax	282,483	275,928	269,874	259,614	261,943	335,017	639,024	809,286
Gas Severance Tax	250,940	225,792	210,372	202,031	191,765	174,308	160,873	159,425
Rents & Royalties	164,963	286,923	220,514	286,293	279,770	590,632	543,236	NA

CALIFORNIA

Tax	Tax Rate
Oil Production Tax	Variable

Oil and Gas Production Tax - administered by the Department of Conservation with rates determined annually and based upon the estimate of annual conservation costs. The tax rate for 1982 was 0.0151682 per barrel of oil produced or per 10,000 cubic feet of natural gas produced.

Revenue Title	Revenue Collections (thousands of dollars)							
	1975	1976	1977	1978	1979	1980	1981	1982
Oil/Gas Prod. Tax	2,311	2,334	1,530	2,313	4,188	3,535	4,395	5,303
Rents & Royalties	129,379	115,831	107,695	96,529	117,010	313,831	508,980	NA

OKLAHOMA

Tax	Tax Rate
Gross Production Tax	7% of gross value at the well
Petroleum Excise Tax	0.085 of 1% of gross value
Gas Conservation Tax	7¢ per 1,000 cubic feet

Gross Production Tax - imposed on oil, casinghead gas, and natural gas. The tax rate for oil and gas is 7 percent of the gross value at the well. Companies pay gross production taxes in lieu of ad valorem taxes on producing properties.

Petroleum Excise Tax - imposed on each barrel of petroleum oil and on all natural and/or casinghead gas produced in Oklahoma which is subject to the Gross Production Tax. Oil and gas are levied at the rate of 0.085 of 1 percent of gross value per barrel produced and gas produced.

Gas Conservation Tax - imposed on all natural gas and/or casinghead gas produced and saved, excluding nontaxable royalty, at the rate of 7¢ per 1,000 cubic feet, minus 7 percent of the gross value. The tax is not to exceed one-third of the gross value.

Revenue Collections (thousands of dollars)

Revenue Title	1975	1976	1977	1978	1979	1980	1981	1982
Gross Production Tax	126,858	150,071	189,180	215,925	241,995	403,758	572,787	²
Petroleum Excise Tax	1,238	1,245	2,171	2,636	2,960	4,821	6,924	²
Gas Conservation Tax				11,807 ¹	36,027	27,519	21,775	²
Rent & Royalties	13,120	13,933	18,290	25,928	28,063	29,068	59,076	NA

¹ Tax became effective January 1, 1978.

² Total severance taxes were \$742.7 million for 1982. No breakdown currently available.

WYOMING

Tax	Tax Rate
Severance Tax	6% of value
Oil & Gas Conservation Tax	4/5 of 1 mill of value

Severance Tax - imposed at a rate of 6 percent of the selling price of oil and gas. The tax is only 4 percent for those wells whose average daily production is ten barrels per day or less.

Oil & Gas Conservation Tax - levied by the Oil and Gas Conservation Commission for its own expenses, the rate is not to exceed 4/5 of 1 mill per dollar value of oil and gas produced.

Revenue Title	Revenue Collections (thousands of dollars)							
	1975	1976	1977	1978	1979	1980	1981	1982
Severance Tax (excl. coal)	18,176	40,316 ¹	45,657	47,882	56,833	62,524	77,638	285,055 ²
Oil & Gas Conservation Tax			315	423	308	233		2,708
Rents & Royalties	12,615	15,922	17,388	20,234	21,771	39,275	57,107	NA

¹ Tax rate increased, effective March 1975.

² Tax rate increased, effective January 1, 1981.

KANSAS

Tax	Tax Rate
Oil Production Tax	\$.002 per barrel
Gas Production Tax	\$.00006 per 1,000 cubic feet
Oil & Gas Conservation Tax	12.5 mills per barrel of crude oil, 0.8 mills for each 1,000 cubic feet of gas
Oil & Gas Severance Tax	8% of gross value

Oil & Gas Production Taxes - State Board of Health has imposed the oil production tax for the prevention of steam pollution at the rate of \$.002 per barrel of petroleum produced and \$.00006 per 1,000 cubic feet of gas produced.

Oil & Gas Conservation Taxes - State Corporation Commissioner has imposed the oil and gas conservation taxes at the rate of 12.5 mills per barrel of crude oil or petroleum marketed or used and 0.8 mills for each 1,000 cubic feet of gas produced, sold, marketed, or used.

Oil & Gas Severance Tax - the new severance tax on oil and natural gas (effective May 1, 1983) levies a tax rate of 8 percent of gross value. However, certain credits and exemptions are available: (1) The severance and production of gas or oil from any pool from which oil or gas was first produced on or after April 1, 1983, is exempt for a period of 24 months from the month in which oil or gas was first produced from such pool; and (2) Taxpayers liable for property taxes upon oil property are allowed a severance tax credit.

Revenue Collections (thousands of dollars)

Revenue Title	1975	1976	1977	1978	1979	1980	1981	1982
Oil Production	136	146	151	145	166	214	150	165
Natural Gas Prod.	458	402	516	547	739	729	637	602
Oil & Gas Conservation	106	237	149	149	192	157	220	246
Oil & Gas Severance	(Effective May 1, 1983)							
Rents & Royalties	623	367	547	900	1,108	1,412	1,610	NA

NEW MEXICO

Tax	Tax Rate
Oil Severance Tax	3.75 % of value
Gas Severance Tax	14.7¢ per 1,000 cubic feet
Gas Processor's Tax	0.45% of value
Oil, Gas Ad Valorem Production Tax	Variable
Oil, Gas School Tax	Variable
Oil, Gas Conservation Tax	Variable
Oil, Gas Production Equipment Tax	Variable

Oil and Gas Severance Tax - imposed at a rate of 3.75% of value on oil and other liquid hydrocarbons. The tax on gas is levied at 14.7¢ per 1,000 cubic feet, with 8.7¢ being the unit tax and 6¢ being the surtax.

Gas Processor's Tax - levied at a rate of 0.45 percent and based on the taxable value of natural gas produced. Taxable value being the actual price received, minus specific deductions.

Oil, Gas Ad Valorem Production Tax - levied at a rate certified to the Oil and Gas Accounting Division based on the assessed value of products severed and sold from each production unit.

Oil, Gas School tax - is a privilege tax imposed on the taxable value of oil, natural gas, and liquid hydrocarbons severed and sold.

Oil, Gas Conservation Tax - levied on oil, natural gas, and liquid hydrocarbons severed and sold. Rates vary and are based on the actual price received at the time of production, less certain deductions. Currently, the tax is levied at 18/100 of 1% of value.

Oil, Gas Production Equipment Tax - levied on the assessed value of oil and gas production equipment (meaning well and nonmobile equipment). The rate varies annually.

NEW MEXICO

Revenue Collections
(thousands of dollars)

Revenue Title	1975	1976	1977	1978	1979	1980	1981	1982
Oil & Gas Sev. Tax	36,064 ¹	46,211	53,975	74,088	77,575	98,317	171,180	204,622
Gas Processors Tax	1,695	2,199	2,719	3,210	3,620	5,154	7,359	9,088
Oil/Gas Ad Valorem Production Tax	4,378	4,058	4,419	5,034	5,502	8,169	9,076	13,402
Oil/Gas School Tax (Priv. Tax)	26,520	31,457	36,715	42,831	47,810	73,546	94,798	116,270
Oil/Gas Conserva- tion Tax	1,456	2,225	2,787	3,515	4,004	6,095	7,875	9,033
Oil/Gas Prod. Equipment Tax			2,606	828	927	1,091	870	833
Rents & Royalties	76,530	99,461	110,094	127,568	148,345	272,964	397,435	NA

¹ Tax rate for oil increased from 2 1/2% to 3 3/4%, effective July 1, 1974.

NORTH DAKOTA

Tax	Tax Rate
Oil & Gas Gross Production Tax	5% of gross value at the well
Oil Extraction Tax	6.5% of value

Oil and Gas Gross Production Tax - levied at the rate of 5 percent of the gross value at the well and is imposed on "the whole production," including what is commonly known as the royalty interest. The gross production tax exempts government royalties and is in lieu of all state and local ad valorem property taxes on the oil gas and "upon machinery, appliances and equipment used in and around" the well. But the state emphasizes, "No equipment, material or property shall be exempt from payment of ad valorem tax by reason of payment of the gross production tax . . . except such equipment machinery, tools, material or property (that is) actually necessary and (is) being used at the site of a producing well." It is "expressly declared that no office buildings, garages, gasoline extraction plants or fuel systems shall be exempt."

Oil Extraction Tax - imposed at the rate of 6.5 percent of the value of oil at the wellhead. Government royalties are exempt from this tax, as are stripper properties. Further, the mineral owner's royalty interest in the first 100 barrels of average daily production per well is exempt from the oil extraction tax. Overriding royalties and working interest are not exempt.

Revenue Collections (thousands of dollars)

Revenue Title	1975	1976	1977	1978	1979	1980	1981	1982
Oil & Gas Gross Prod. Tax	6,880	8,283	9,288	10,730	13,533	29,687	63,908	79,908
Oil Extraction Tax							23,652 ¹	29,317
Rents & Royalties	2,093	3,148	5,494	20,979	27,055	68,826	84,973	NA

¹ New tax effective January 1, 1981.

MISSISSIPPI

Tax	Tax Rate
Oil Severance Tax	6% of value at well
Gas Severance Tax	6% of value at well

Oil Severance Tax - 6 percent per barrel, or 6 percent of the value thereof at point of production, whichever is greater.

Gas Severance Tax - 6 percent of the value of natural and casinghead gas produced and severed from soil or water, for sale, transport, storage, profit or commercial use, or 3 mills per 1,000 cubic feet, whichever is greater.

Revenue Collections (thousands of dollars)

Revenue Title	1975	1976	1977	1978	1979	1980	1981	1982
Oil Severance Tax	18,284	18,729	19,312	19,111	19,508	30,082	53,493	65,595
Gas Severance Tax	2,331	2,980	4,105	6,436	11,205	20,138	32,177	49,004
Rents & Royalties	55	29	292	1,465	34	301	264	NA

MEMORANDUM

State of Alaska

TO: Vincent D. Wright
Chief of Research

DATE: April 20, 1982

FILE NO:

TELEPHONE NO:

FROM: Mary Ellen Frank, Economist
John Larson, Economist

SUBJECT: Alternative Means of
Increasing of Nonpetroleum
Revenues

The purpose of this memo is to outline alternative means of improving the State's fiscal position in light of the recent decline in petroleum revenue estimates. This can be accomplished by either acting to increase revenues or decrease expenditures. The Petroleum Revenue Division is drafting a separate memo addressing alternatives for increasing petroleum revenues; therefore, only measures to increase nonpetroleum revenues or decrease expenditures will be addressed here. Advantages and disadvantages, as well as preliminary estimates of fiscal impact, will be outlined for each alternative.

The table following on pages two and three summarizes only the quantitative impact of some of these proposals. In general, the issues which should be considered with respect to measures to increase revenues i.e., tax law changes are as follows.

Economic Efficiency: What effect does the proposed tax law change have on incentives and economic decision making which may alter consumption, production or resource allocation decisions? Equity: who bears the burden of the tax and how does that burden compare to ability to pay or benefits received? Is the tax progressive or regressive with respect to income and/or wealth? Elasticity: What is the sensitivity of the tax revenue yield to changes in economic or demographic conditions? As income or population increase and decrease does tax revenue increase or decrease in greater, lesser or equal proportion? Administrative Efficiency: How costly is the tax to administer in terms of resources devoted to administration and compliance relative to the revenue yield of the tax? Who bears the burden of administrative cost, the taxpayer, the state or the tax collector if different from the state? Political Feasibility: How acceptable is a proposed tax law change to the legislative and/or the electorate given existing social, political, and economic conditions? Who benefits, who loses, and who has the most political power?

The issues relating to expenditure reduction are also both economic and political in nature. Expenditures should be reduced in areas where they will have the least economic impact in terms of employment and income to state residents and, therefore, relatively greater political acceptability. It may be politically more acceptable to reduce expenditures in programs the electorate has not already come to depend on such as the permanent fund dividend program or planned but unconstructed, capital projects rather than to increase the rates of existing taxes,

Summary Table

<u>Tax/Expend.</u>	<u>Change</u>	<u>FY</u>	<u>Last Actuals</u>	<u>Projected As Is</u>	<u>With Change</u>	<u>Difference</u>
Individual Income Tax	Reinstate	77	135.5	-	-	-
		78	106.7	-	-	-
		79	93.	-	-	-
		83	-	0.0	278.3	+278.3
		84	-	0.0	354.5	+354.5
		85	-	0.0	436.4	+436.4
Corporate Income Tax	Increase Rate In Upper Income Categories	83	-	290.0	427.0	+137.0
		84	-	344.0	507.0	+163.0
		85	-	353.0	518.0	+165.0
Business License Tax	Reinstate Gross Receipts Retain 100%	77	23.3	-	-	-
		78	21.7	-	-	-
		79	28.2	-	-	-
	In GF, At Old Rates & With Flat Rates	83	-	5.5	34.3-43.2	+28.8-37.7
		84	-	5.5	40.1-52.6	+34.6-47.1
		85	-	5.5	45.7-61.6	+40.2-56.1
Alcohol Tax	Double & Add CPI Inflator	79	7.4	-	-	-
		80	7.4	-	-	-
		81	8.3	-	-	-
		83	-	9.0	17.6	+8.6
		84	-	9.0	19.4	+10.4
		85	-	9.0	21.3	+12.3
Cigarette Tax	Double & Add CPI Inflator Cont. 5¢/ Pack to Sch. Fund	79	1.6	-	-	-
		80	1.6	-	-	-
		81	1.7	-	-	-
		83	-	1.9	6.8	+4.9
		84	-	1.9	8.4	+6.5
		85	-	1.9	9.5	+7.6
Highway Fuel Tax	Double & Add CPI Inflator	79	16.3	-	-	-
		80	18.9	-	-	-
		81	15.6	-	-	-
		83	-	19.0	34.6	+15.6
		84	-	19.5	63.6	+44.3
		85	-	20.0	70.4	+50.4

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<u>Tax/Expend.</u>	<u>Change</u>	<u>FY</u>	<u>Last Actuals</u>	<u>Projected As Is</u>	<u>With Change</u>	<u>Difference</u>
Aviation Fuel Tax	Double & Add CPI Inflator	79	3.3	-	-	-
		80	4.0	-	-	-
		81	4.1	-	-	-
		83	-	4.3	6.0	+1.7
		84	-	4.5	10.1	+5.6
		85	-	4.7	11.5	+6.8
Marine Fuel Tax	Double & Add CPI Inflator	79	2.6	-	-	-
		80	3.2	-	-	-
		81	3.6	-	-	-
		83	-	3.6	4.7	+1.1
		84	-	3.8	8.5	+4.7
		85	-	4.0	9.7	+5.7
Retail Sales Tax	Enact With & Without Food Exemption Revenue Per One Percent Tax Rate	79	0	-	-	-
		80	0	-	-	-
		81	0	-	-	-
		83	-	-	32.5-54.2	+32.5-54.2
		84	-	-	35.7-59.6	+37.7-59.6
		85	-	-	39.3-65.6	+39.3-65.6
Permanent Fund Dividend Fund Appropriation	Reduce	81	141.0	-	-	-
		82	150.0	-	-	-
		83	-	150.4	0	+150.4

reinstate taxes which have previously been repealed such as the individual income tax or the business license tax or institute new taxes such as a retail sales tax.

Individual Income Tax

The Alaska Net Income Tax AS 43.20.011(a)-(d) could be reenacted to apply to individuals. If this were accomplished with the previous progressive rate schedule unchanged, the following amounts of additional revenues could be generated:

	<u>FY 83</u>	<u>FY 84</u>	<u>FY 85</u>
Individual Income Tax (millions \$)	278.3	354.5	436.4

These estimates are based on the most current REVMOD employment and income projections combined with previously estimated individual income tax equations.

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In terms of equity the individual income tax is generally considered the "fairest" tax. The burden or incidence of the tax falls on the individual taxpayer and there is no opportunity for shifting of incidence as with the corporate income or business type taxes. Given a progressive rate schedule, the tax burden is based on the "ability to pay" principle of taxation and the effective incidence is progressive. That is, as income level of the taxpayer increases, the effective tax rate also increases. It should be noted though that state income taxes are deductible when computing taxable income for federal income tax purposes if the individual itemizes deductions. This has the effect of reducing the burden on individuals with higher incomes who are subject to higher marginal rates at the federal level and are also more likely to be in a position to itemize. The effect is to reduce the progressivity of the tax burden at the state level. This effect will be reduced however in light of recent scheduled income tax rate reductions enacted at the federal level.

In terms of economic efficiency the effects of the individual income tax on consumption production and resource allocation decisions should be neutral as the tax is applied uniformly to all individuals. However, steeply progressive rates could result in general disincentives to engage in productive economic activity and incentives to shift income to tax sheltered or favored activities. Since the income tax at the state level is small relative to the federal income tax, this effect is not likely to be significant.

The income elasticity of individual income tax revenues, given progressive rates, is greater than one which is to say a given percentage change in income will produce a larger percentage change in tax revenues. Thus during periods of economic growth, individual income tax revenues will increase more than in proportion to the growth and, during periods of economic decline, they will fall more than in proportion to the decline. This makes the individual income tax relatively unstable in terms of yield.

Reinstating the individual income tax after dismantling the administrative and compliance functions with the Department of Revenue could involve considerable start up costs. Audit and collection functions would have to be brought back on line. Personnel would have to be hired and trained, computer programs and procedures developed, etc. However, once the initial start up period was completed, administrative and compliance costs similar to previous levels relative to tax collections would probably be achieved.

In terms of political feasibility, it is always difficult to reenact a tax after it has been repealed. This is especially so, as in the case of the individual income tax, when the tax was repealed only a short time before and the electorate has just readjusted their expectations accordingly. Also, in light of the currently depressed national and state economies, reenacting the individual income tax now would further

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decrease disposable personal income in the state and could adversely affect support sector industries such as trade, services and residential construction. This effect would be partially offset by recently enacted federal income tax reductions; however, this fact could also serve to make a state income tax doubly unpopular. Finally, this is an election year and it would seem questionable whether the legislature would reenact a tax it had just repealed two years before.

Corporate Income Tax - Petroleum & NonPetroleum

Corporate income tax rates could be raised. Recent changes in the rate structure have decreased yields per dollar of income between 10 to 12 percent by incorporating a graduated rate structure. If the upper end graduations were extended rather than maximizing at 11 percent for taxable income in excess of four million, the following amounts of additional income could result:

	FY 83	FY 84	FY 85
Corporate Income Tax (millions \$)	137.0	163.0	165.0

The additional rate categories that would result in these increases are 12 percent for \$10 to \$100 million in taxable income, 13 percent for \$100 to \$500 million, 14 percent for income from \$500 million to one billion dollars, and 15 percent on taxable income of a billion or more. (These rates apply to the entire amount of taxable income not just that amount falling in the category.)

In terms of equity, the corporate income tax is based on the benefit principle of taxation. Corporations benefit from the privilege of doing business in a state and also from government services provided. Therefore, they should pay part of the costs of government. Also, corporations are considered to have an ability to pay taxes separate and distinct from their owners who receive dividends and who are taxed under the individual income tax. This is especially true of modern large scale corporations which command extensive resources and which are controlled by professional managers who may not be equity owners. The actual incidence of the corporate income tax is uncertain and varies among industries and firms depending on market conditions which may constrain shifting of the tax burden. Although the corporation pays the tax, the burden may fall on equity owners, employees, suppliers or consumers of products produced by the corporation. It is, therefore, not possible to say whether the effective incidence is progressive or regressive even with a nominally progressive rate structure. It is clear, however, that at least part of the burden is shifted out of state to nonresident equity owners and consumers. Also the total burden of state corporate taxes is diminished by the provisions which allow the deduction of state corporate income taxes from taxable income when computing federal taxable income.

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The economic efficiency effects of the state corporate income tax should be neutral vis-a-vis consumption and production decisions as it applies uniformly to all corporations. It is possible that extremely high marginal rates could affect locational decisions by industry, all other factors being equal. This is, however, not likely, especially in Alaska where locational decisions of major industries tend to revolve around proximity to resources. Also the state corporate income tax is relatively insignificant when compared to the level of corporate income taxation at the federal level.

The tax yield from the corporate income tax under AS 43.20 is not entirely or even primarily a function of in-state economic activity, i.e., employment, population and income growth. While there are a number of corporate taxpayers who are totally domestic within Alaska, the majority of the tax is collected from multistate nonpetroleum and petroleum corporations. Since these corporations apportion their worldwide income when computing their state tax liability, the elasticity of tax yield relative to economic growth with Alaska is difficult to determine but probably relatively low. That is, the corporate income tax is probably fairly stable relative to changes within the Alaskan economy. Eliminating the recently enacted graduated rate schedule for the lower income categories would tend to make the tax yield even more inelastic, i.e., stable. Continuing the progression of the graduated tax rates to higher income categories into which the petroleum corporate taxpayers fall would tend to increase the elasticity of the tax yield to changes to worldwide petroleum corporation income.

Changing the tax rate schedule would not entail any significant additional administration and compliance costs. It is likely, however, additional resources devoted to audit and collection compliance relative to the corporate income tax would prove cost effective in generating additional collections.

In light of all the changes which have been enacted relative to both petroleum and nonpetroleum corporate taxes over the last several years, the political feasibility of enacting another such change should be considered. The need for additional revenues and the fact that corporations do not directly vote for representatives combined with election year politics may make this option comparatively palatable.

Gross Receipts Business License Tax

The gross receipts tax portion of the Alaska Business License Act, AS 43.70, could be reenacted. Currently under AS 43.70 all persons or businesses must purchase annually a business license costing \$25 for the privilege of engaging in a business in the state. In addition, national banks, state banks, trust companies, and savings and loan associations pay a tax equal to seven percent of their net income. Previously, before it was repealed, other businesses with certain exceptions paid a tax on

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their gross receipts equal to one-half of one percent on gross receipts between \$20,000 and \$100,000 and one-quarter of one percent on gross receipts in excess of \$100,000. If this gross receipts tax were reenacted with previously existing rates, the following additional revenues would be generated:

	FY 83	FY 84	FY 85
Business License Tax (millions \$)	28.8	34.6	40.2

If the gross receipts tax were reenacted but if the previous regressive rate structure were replaced with a flat rate of one-half of one percent on all gross receipts in excess of \$20,000 the additional revenues would be as follows:

	FY 83	FY 84	FY 85
Business License Tax (millions \$)	37.7	47.1	56.1

It should also be noted that the previous gross receipts tax was shared back 60 percent to local incorporated areas where the receipts were earned. If this aspect were also reenacted, the net to the state would only be something over 40 percent of the above amounts.

In terms of equity, the ultimate incidence or burden of the gross receipts business license tax is uncertain due to possible shifting, as is the case with the corporate income tax. The burden may rest variably on the business equity owners, employees, suppliers or consumers. Therefore, the relative progressivity or regressivity of the tax burden is difficult to determine. However, it should be noted that the previously existing rates were nominally regressive in and of themselves. Part of the burden is probably exported out of state to nonresident owners and consumers. This tax is supposedly levied on a business for the privilege of doing business in the state. However, it has little justification under either the ability to pay or benefit principals of taxation. Under a net income tax both the ability to pay and the benefit a business derives from doing business in the state are considered. Net income, however, is not necessarily a function of gross receipts. A gross receipts tax discriminates against high volume-low profit or low per unit profit operations, especially those which cannot easily shift the tax to consumers due to competition.

If a gross receipts tax is applied uniformly to all business, it should not distort consumer choices or resource allocation. If the rate, however, were increased much above the previous low levels, the tax could have a significant negative effect on marginally profitable businesses.

The elasticity of the tax yield under a gross receipts tax is uncertain. Sales in some industries are more sensitive to economic

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expansion and contraction than others, so overall industry composition would affect elasticity. Also the rate structure has some effect. Under the previous regressive rate structure, the revenue yield would be less elastic than if a flat rate structure were enacted.

Administration of a reenacted business license gross receipts tax would pose no major problems. The business license fee has been kept in effect so the Department has kept track of potential business taxpayers. Some start up, hiring and retraining, costs would be incurred. Also additional audit and collection resources may have to be devoted especially if rates were increased significantly.

Politically, reenactment of the gross receipts tax is very questionable. The tax was always very unpopular due mainly to equity considerations mentioned above. It is unlikely the legislature would reenact this tax in an election year.

Selective Sales and Excise Taxes
Alcoholic Beverage Excise Tax and Cigarette Tax

The excise tax rates under the Tobacco Tax, AS 43.50, and the Alcoholic Beverage Tax, AS 43.60, could be increased. If the alcohol tax rate was doubled and allowed to increase with inflation, the following additions to revenue would result (assuming a yearly inflation rate of eight percent):

	FY 83	FY 84	FY 85
Alcohol Tax (million \$)	8.6	10.4	12.3

The initial increases per six pack of beer would be 14¢, per liter of wine would be 16¢, and per fifth of liquor 80¢. These would increase with inflation, so by 1985 the cost difference attributable to tax increases would be 21¢ per six pack of beer, 24¢ per liter of wine, and \$1.22 per fifth of liquor.

If the cigarette tax were doubled, allowed to increase with inflation, and the contribution amount per pack to the School Fund held constant at 5¢ per pack, the following additional General Fund amounts would be realized:

	FY 83	FY 84	FY 85
Cigarette Tax (millions \$)	4.9	6.5	7.6

If the contribution rate to the School Fund was held constant, the above estimates would drop by about 70 percent. The initial increase in a pack of cigarette would be 8¢. This would rise with inflation (assumed at 8 percent a year) to almost 11.4¢ in 1985, attributable to tax increases alone.

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Selective sales taxes on alcoholic beverages and cigarettes are usually justified on two grounds. First, they are sumptuary in nature. They are said to be levied so as to reduce consumption of products which are considered harmful to individuals, especially when consumed in excessive quantities. In practice, however, due to inelastic demand and strong individual preferences for these products, these taxes are not high enough to have this effect. Second, these taxes are said to be justified due to the social costs imposed on society as a whole by drinkers and smokers; auto accidents, crime, alcohol rehabilitation, lung disease, etc. Rates should, therefore, be based on estimates of these social costs. The incidence of these taxes is regressive on consumers of alcohol and tobacco. That is, alcohol and tobacco expenditure represent a relatively larger proportion of income for lower income smokers and drinkers than for those with higher incomes. In addition, these taxes discriminate against individuals based on personal preferences and against businesses which sell these taxed commodities.

In terms of economic efficiency, these taxes have the effect of making alcohol and tobacco relatively more expensive as compared to other commodities, thus altering consumer choices and resource allocation. However, due to inelastic demand for these products, this effect is probably not very great.

As mentioned above, the demand for alcohol and tobacco products is inelastic relative to price. Thus an increase in the tax rates on these products would have a relatively small effect on consumption and the tax yield would increase almost proportionately to the rate change. Tobacco consumption is almost totally a function of population size and tastes. A certain percentage of the population is going to smoke regardless of price they have to pay, within reason of course. So as population size increases the yield from the tobacco tax should show a stable increase relative to population. Alcohol consumption is also a function of population and tastes, but income also plays a role. As income increases, there is tendency for individuals to consume more liquor and wine as opposed to beer which are taxed at higher rates. This effect causes the elasticity of the alcohol tax to be greater relative to income.

As the alcoholic beverage tax and the tobacco tax are already in place, changing the tax rates would not increase administration or compliance costs.

The political feasibility of increasing excise taxes on alcohol and cigarettes is uncertain. If increases in rates were tied to estimated social or even governmental costs resulting from smoking and drinking, it might be possible to convince legislators of the validity of such a rate change. However, again, this being an election year, and given the high per capita consumption of these products especially alcohol in Alaska, it is doubtful that a rate increase would be very popular.

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Selective Sales and Excise Taxes
Motor Fuel Tax

If all fuel taxes were doubled and allowed to increase with inflation, the following additions to revenue would result (assuming a yearly inflation rate of eight percent):

(Million \$)	FY 83	FY 84	FY 85
Highway Fuel Tax	15.6	44.3	50.4
Aviation Fuel Tax	1.7	5.6	6.8
Marine Fuel Tax	1.1	4.7	5.7

In terms of equity, the Highway Fuel Tax is based on the benefit principle of taxation. An individual's consumption of fuel is generally proportional to their use of state highways and roads and the benefit they derive from state highways and roads is proportional to their use. Thus, the highway fuel tax is usually considered to be a tax in lieu of a charge as it would not be practical to set up every state highway or road as a toll road. The existing tax rates do incorporate a partial refund for off highway use of fuel as in the case of construction, logging, or recreational use. Aviation and marine fuel are taxed at different rates also. The incidence of the tax is on both consumers of highway fuel and consumers in general. A common incidence assumption is two-thirds on consumers of fuel and one-third on consumers in general. A portion of the tax is paid by business on the fuel they use in producing goods and services and is passed on to consumers in general. The incidence is also regressive as fuel expenditures represent a larger percentage of income for low income as compared to high income taxpayers. Part of the incidence is shifted out of state to nonresident tourists who consume fuel within Alaska.

In terms of economic efficiency this tax has the effect of making fuel relatively more expensive as compared to other commodities, thus altering consumer choices and resource allocation. This could be considered a partial justification for the tax as it could encourage conservation of scarce petroleum resources.

In practice the demand for fuel is fairly inelastic relative to price changes over the short term and within a reasonable price range thus the yield from this tax should be fairly stable and increase proportionally to any rate increase. Although as we have seen from recent national and worldwide fuel consumption trends, over the long run demand for fuel is responsive to price changes and the level of the economy is general. The current worldwide over supply of petroleum is due partly to conservation measures and economic recession in the major consuming nations. As population in Alaska increases, the highway fuel tax should show a proportional increase and yet it should be relatively insensitive to short term changes in income levels.

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The administrative and compliance organizations are already in place and changing the rates would not entail any additional costs.

The political feasibility of rate changes in the highway fuel tax should be considered in light of the current decline in fuel prices due to worldwide excess supply of petroleum products relative to demand. Any rate changes could be based on estimated revenue requirements related to state construction and maintenance of highways and roads.

General Retail Sales Tax

A General Retail Sales Tax could be enacted at the state level. Alaska currently has sales taxes only at the local level. Currently 45 states have sales taxes at the state level and they account for an important and growing source of state government revenues. Sales tax revenues account for an average of almost 20 percent of total state government revenues in states with sales taxes. The sales tax accounts for the highest percentage of state government revenues, in Washington state over 34 percent. Some states, Hawaii for example, have nonretail elements in their sales tax structures; however, the majority limit the sales tax to the retail level. States vary primarily in their coverage of services, some tax no services, others tax all services. However, most exempt professional services. States also vary items of exemptions they allow for commodity purchases. Food, prescription drugs, admissions, phone, gas and electric are common exemptions, food being the most significant. Thirty-three states either exempt food (other than restaurant) purchases or allow individuals a credit against their state income taxes. This is to ameliorate the regressive incidence of the sales tax. The most common sales tax rates are three or four percent in states with broad based sales taxes. The yield from sales taxes as a percent of state personal income per one percent of sales tax rate averages about .45 percent in states exempting food and about .75 percent in states taxing food. Based on these percentages and current projections of Alaska personal income, a one percent retail sales tax enacted in Alaska could generate the following range of revenues depending on whether food was exempted or not:

	<u>FY 83</u>	<u>FY 84</u>	<u>FY 85</u>
Sales Tax Revenue (millions \$)	32.5-54.2	35.7-59.6	39.3-65.6

These figures show the probable yield from a one percent tax rate so the yield from a higher tax rate can be calculated accordingly.

In terms of equity, the incidence of a retail sales tax is on the individual and business consumers of the taxed goods. There is no opportunity for shifting incidence of purchases by individuals, however the portion paid by businesses will ultimately be shifted to consumers of the goods and services those businesses produce. At least part of the

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burden will be exported to nonresident tourists who make purchases within the state. This can be a significant factor in states with large tourist industries. The incidence relative to income is regressive as the tax is levied on consumption and low income individuals consume a greater percentage of their income. Also the fact that sales taxes are deductible when computing taxable income for federal income tax purposes combined with progressive income tax rates has the effect of making the effective incidence of the sales tax even more regressive. Sales taxes also discriminate against individuals on equal income levels who have higher than average consumption due to family size or taste. Thus the sales tax exhibits some inequity both vertically between income levels and horizontally across given income levels. The regressivity of the sales tax has been ameliorated in many states by either exempting food purchases from the sales tax or allowing individuals to claim a credit against their state income tax liability. Finally, it should be noted that in a relatively affluent society in which most individuals are consuming at levels far above subsistence, the regressivity of the sales tax may not be a significant factor as far as equity is concerned. This is probably the case in urban Alaskan communities but may not be for some rural/bush areas.

If a general retail sales tax is levied at a uniform rate on all goods and services and is applied to a broad base it should not distort consumer choices or alter resource allocation. Therefore, as concerns economic efficiency, the tax should be neutral. For this reason as well as for administrative and compliance reasons, it is preferable to address the regressivity of the sales tax by allowing individuals to claim a credit against their state income tax liability (if one exists) rather than to grant specific exemptions to certain commodities such as food.

The yield from a retail sales tax is usually fairly stable especially if it is broad based. This is because consumption expenditures are fairly inelastic relative to short term fluctuations in personal income. Individuals tend to hold their consumption at a certain level and allow their savings to vary in short term. As income, population or prices increase over time the yield from a flat rate sales tax should increase proportionally. If, however, real per capita personal income increases over time, the percentage of personal income spent on taxable consumption as opposed to savings and investment may decline, thus it can be said that the revenue yield from a flat rate sales tax is relatively inelastic as compared to the yield from a progressive rate income tax.

In terms of administrative efficiency, the enactment of a completely new tax at the state level would entail considerable start up costs. In states with well established sales tax procedures, administration costs run about two percent of sales tax collections. In addition, many states also compensate retailers, upon whom the major burden of compliance and collection falls, between one and five percent of collections. Cost in Alaska could be higher due to Alaska's relatively small population size and large geographic area as well as start up costs. With a sales tax

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there is a smaller number of taxpaying units (retailers) than with an individual income tax and so, to some extent, administration and compliance costs tend to be lower. Sales taxes, however, do require extensive audit and delinquency programs especially if there are exemptions from the tax base such as food which provide an opportunity for tax cheating. Alaska currently has some communities with local sales taxes; however, they vary widely in both rate and base. One administrative option would be for the state to collect both local and state sales taxes and return the local portion. This would necessitate consistency in tax base but may allow some local communities to lower their tax rate and still collect the same amount of revenues. This option would increase administrative costs to the state and localities would lose some discretion over their own tax structure.

In terms of political acceptability, sales taxes have been traditionally supported by higher income groups fearing increased property or income taxation. They have been opposed by labor organizations primarily on equity grounds and by retailers who feared loss of business and compliance costs. Sales taxes are not as visible as income taxes in that the tax is levied in small bits each time a purchase is made rather than in larger amounts through payroll withholding or payments at year end. Since Alaska has never had a state sales tax, the income tax was just recently repealed and this is an election year, it is questionable whether the legislature would enact such a major new tax on individuals.

PFD Appropriation

The Permanent Fund Dividend Fund appropriation from the FY 83 budget could be reduced and future burdens eliminated. So far, \$276 million in 1979 and 1980 dividend claims have been accepted for payment. This is unlikely to increase to more than \$282 million. Claim year 1981 payments are estimated to total \$155 million. Fund requirement to pay off the first three claim years under the existing program are, therefore, \$437 million.

General Fund appropriations from the FY 81 and FY 82 budget are \$291 million and PF participation is \$31 million. Estimated PF transfers for FY 82 are \$35 million and the proposed FY 83 GF appropriation is \$150 million. This brings the total available to pay the \$437 million in claims to \$507 million. The appropriation could therefore be reduced by \$70 million and still be adequate to pay PFD's for the years 1979 through 1981.

If a \$50 per share value is maintained under the existing law, General Fund appropriations of \$120 million a year will be required at least through FY 85, when they could decline slowly. If children are added to the existing program, the General Fund appropriations will increase to \$150 million and this burden will never fall below \$90 million in this century.

**ALASKA CORPORATE NET INCOME TAX
ON OIL AND GAS FIRMS**

I. STANDARD THREE-FACTOR APPORTIONMENT APPROACH (AS 43.20): 1959-1977

Although Alaska was the first state to adopt the Uniform Division of Income for Tax Purposes Act (UDITPA) in 1959, there was apparently no effective field audit program instituted by the Department of Revenue until after the state became a member of the Multistate Tax Compact in 1970. See AS 43.19. Therefore, historic compliance with the filing method was at a low level in the early 1970's and departmental experience with the tax was relatively new.

During the period 1972-74, the department established a field audit program within the Audit Division in order to audit the tax returns of multistate and multinational corporate taxpayers. At the outset it became obvious that the standard three-factor formula would work to the detriment of Alaska in the case of extractive industries.

Historically, the three-factor formula (which was incorporated in UDITPA and Article IV of the Multistate Tax Compact) worked well for manufacturing and mercantile corporations that had sales in states in which the manufacturing did not take place. Alaska's economy, on the other hand, and particularly the extractive industries within Alaska, were not at all comparable to the manufacturer/mercantile situation. In fact, the great value of our extractive industries is in the raw material which is exported from the state and not sold within the state; yet the exhaustion of a nonrenewable resource is an economic consideration that is completely absent in the "standard" three-factor formula. The large wage and property factors which are part of the UDITPA formula are also generally not representative of the extent of business activities, and the profits from them, in the State of Alaska with respect to extractive industries. Hence, there was growing legislative concern that the apportionment formula would not adequately reflect the actual value of the resource extracted and exported from Alaska.

Furthermore, the base to which the formula is applied is the federal tax base. That tax base is determined by Congress and Congress, in setting tax policy to meet national goals, often provides tax incentives which may or may not be appropriate for Alaska to adopt. These include such things as accelerated depreciation, percentage depletion, intangible drilling costs, investment credit, domestic international sales corporations, etc. Undoubtedly these serve the interest of the United States as a whole, but they do not necessarily help Alaska and may indeed be detrimental for the state. For example, allowing intangible drilling costs on a worldwide basis could erode the Alaska tax base (i.e., federal taxable income) if drilling costs were disproportionately incurred outside of

Alaska. In short, federal incentives, when incorporated automatically into Alaska's income tax, could serve to drain state income tax revenues without providing offsetting economic benefits. A study in January 1977 by Professors Jerome M. Zeifman and Kenneth G. Ainsworth, entitled "The Taxation of the Petroleum Industry Under Alaska's Corporate Income Tax," included a table which indicated the difference between book income and taxable income for a sampling of the oil companies operating in Alaska. In 1973, that difference was over one billion, eight hundred million dollars; in 1974, over three billion dollars; and in 1975, almost one billion, six hundred million dollars.

The problem, then, was seen to be an eroded tax base being apportioned to Alaska by the use of a formula which did not reflect the value and depletion of the raw material being extracted and exported from Alaska.

II. SEPARATE ACCOUNTING (AS 43.21): 1978-1981

In 1978, the Legislature proposed a possible solution to this problem with the passage of AS 43.21, the Oil and Gas Corporate Income Tax. Basically, 43.21 is a separate accounting method wherein all of the income and expense elements are defined by statute. Income is divided into three types; (1) income from oil and gas production; (2) income from oil and gas pipeline transportation; and (3) income from any other activities.

The determination of taxable income from oil and gas production starts with the calculation of gross income. Basically, the gross income from the production of oil and gas is its gross value at the point of production. There are several ways of determining that value, such as actual prices or value received, posted prices in the same field, prevailing prices of oil and gas in the same field, etc. The deductions from gross income in order to arrive at the net taxable income include royalties paid in kind or in value; production property taxes paid; direct costs in operating the lease or property; depreciation based on the units of production method; amortization of lease acquisition payments and taxes paid prior to commencement of commercial production; interest expense not capitalized during construction; expenses of unsuccessful exploration of oil and gas in the state including acquisition costs, abandonment of properties, dry-hole costs, and geological and physical exploration costs related to the abandoned properties; general overhead and administrative expense; income from the production of oil and gas which is divided among the regional native corporations under the Alaska Native Claims Settlement Act; and the Windfall Profits Tax. Interest and overhead, however, are presumed not to exceed the corporation's total interest and overhead expenses, multiplied by a fraction of which the numerator is the corporation's real and tangible personal property used directly in the production of oil and gas from a lease or property in the state and the denominator of which is all such property of the consolidated business. The corporation may rebut this presumption by satisfactorily demonstrating that its actual expenses in Alaska are greater.

The net income of oil and gas pipeline transportation, basically, is the net operating income that is reported to the Federal Energy Regulatory Commission or that would be reported to that commission in the case of the pipelines that are not regulated by FERC. That number is modified by adding back taxes on or measured by net income. There are also limitations on interest and overhead expenses that may be deducted.

With respect to income from activities other than the production of oil and gas from a lease or property in the state or pipeline transportation of oil or gas in the state, the income is apportioned to the state, starting with the total taxable income or consolidated business less that portion of its entire income attributable to production and pipeline transportation of oil and gas worldwide. The apportionment formula is modified so that the numerator and denominator of the property, payroll and sales factors are each calculated without reference to that portion of property, payroll, or sales directly related to the production of oil or gas in the state or the pipeline transportation of oil or gas in the state.

The separate accounting method, despite the oil industry's historic praise for its precision in attributing income was not well received by the industry. In fact, a lawsuit, Atlantic Richfield Co., et al., vs. State of Alaska, was filed against the state. In that case, the plaintiffs raised the issues of equal protection and commerce clause violations. They argued that a special method of taxation is discriminatory, that duplicate taxation would result, and that the tax created an undue burden on interstate commerce. The state denied the allegations.

Basically, the legislature was concerned that the lawsuit would drag out for several years, leaving in doubt the state's right to keep the five to eight billion dollars that would be collected from the application of 43.21 during that time. The legislature decided that it was not desirable to have such a large potential refund contingent upon the outcome of a lawsuit. Hence, during the 1981 session the legislature decided to limit the effective time for the operation of AS 43.21 and thereby limit the state's exposure to the refund risk. Starting in 1982, a different method of calculating oil and gas production and transportation income taxes was introduced based on a modified apportionment formula. The legislature also modified and increased the severance tax to offset the reduction in income tax revenue, but the net result was still a substantial decrease in total revenues.

III. MODIFIED APPORTIONMENT (AS 43.20.072): 1982-PRESENT

The new income tax adopts a modified apportionment formula with a modified federal income tax base. In order to resolve the problems inherent in the standard approach, the legislature required that intangible drilling and development costs, which are generally expensed under the Internal Revenue Code, be capitalized and depreciated as a part of the well cost; second, that depletion be limited strictly to cost depletion; and third, the depreciation be based on Section 167 of the

Internal Revenue Code as it existed on June 30, 1981. This, of course, eliminates the application of the new accelerated capital recovery system (ACRS) under the recently passed federal legislation.

The precise apportionment formula to be applied to this tax base depends on the nature of the taxpayer's business in the State of Alaska. If the taxpayer is subject to the tax but not engaged in the production of oil and gas from a lease or property in the state, then the apportionment formula is a two-factor one--basically the property factor under the Multistate Tax Compact, along with a modified sales factor. If the taxpayer is subject to the tax but is not engaged in the pipeline transportation of oil and gas in the state, then the formula again has two factors--a modified property factor and what we call an "extraction" factor. If the taxpayer is engaged in both production of oil and gas from a lease or property in the state and pipeline transportation of oil and gas in the state, then the formula has three factors: the sales factor as modified, the property factor, and the extraction factor. The sales factor is modified to include tariffs received by pipeline companies in both its numerator (Alaska tariffs) and its denominator (worldwide tariffs). The property factor has been modified to include cumulative intangible drilling and development costs, whether capitalized or expensed for federal tax purposes. The innovative extraction factor is the number of barrels of oil (or equivalents of gas) produced in the state divided by the number of barrels of oil (or equivalents of gas) produced worldwide. For equivalency purposes, six mcf of gas count the same as one barrel of oil. Depending on the type of oil and gas activities the taxpayer has in the state, the appropriate apportionment formula is applied to the adjusted federal taxable income and the end result is the income earned in Alaska. That Alaska taxable income is subject to a graduated rate schedule where all income over ninety thousand dollars is taxed at 9.4 percent.

Fundamentally, the difference between the Alaska formula and the Multistate Tax Compact is the extraction factor. The other adjustments are merely to bring the sales and property factors in line with the true extent of business activity that pipeline and production operations represent. The extraction factor is an appropriate measure for determining income earned within Alaska since it gives weight to the value of the nonrenewable resource that is extracted and permanently removed from the state. Unlike the destination sales factor in the standard UDIPTA formula, which is appropriate in measuring the impact of sales in another state on the income of a manufacturing or mercantile corporation, the extraction factor is a resource-based factor which recognizes that value exists in the raw material before it is exported from the state and that the resource can never be reextracted within the state again.

Alaska Oil and Gas Corporate Income Tax Statistics (000 omitted)

<u>Tax Year</u>	<u>Production Income AS 43.21.020</u>	<u>Pipeline Income AS 43.21.030</u>	<u>Apportioned Income AS 43.21.040</u>	<u>Total Collections^{1/}</u>	<u>Less Retroactive Refunds and Credits</u>		<u>Net Revenues</u>	<u>Audit Assessments^{4/}</u>
					<u>1980^{2/}</u>	<u>1981^{3/}</u>		
1978	89,600	75,300	5,500	170,400	1,800		168,600	44,300
1979	279,700	132,900	8,000	420,600	1,100		419,500	6,700
1980	596,100	177,700	2,300	776,100		94,900	681,200	600
1981	<u>685,900</u>	<u>210,300</u>	<u>800</u>	<u>897,000</u>			<u>897,000</u>	<u>4,200</u>
Totals	<u>1,651,300</u>	<u>596,200</u>	<u>16,600</u>	<u>2,264,100</u>	<u>2,900</u>	<u>94,900</u>	<u>2,166,300</u>	<u>55,800</u>

^{1/} - Total collections do not include audit assessments agreed to by the taxpayer.

^{2/} - The 1980 refunds are those derived from the retroactive provisions of Chapter 113, SLA 1980 (Senate Bill 313).

^{3/} - The 1981 credits are the amounts reported by the taxpayers for the retroactive provisions of Chapter 115, SLA 1981 (Senate Bill 524). Substantially all of these amounts are for the windfall profits tax deduction. The other retroactive adjustments - Senate Bill 524 are being examined during the audit of each company, and the amount of the claimed refunds is not readily available.

^{4/} - The audit assessments do not include reductions of net operating losses or the results of determinations at the informal conference level. Only a couple of the 1978 audits have not been completed as of September 21, 1983, but the majority of the major audits have not been completed for the other 3 years.

ALASKA OIL AND GAS SEVERANCE TAX

AS 43.55

Alaska imposes severance taxes on oil and gas production under AS 43.55. No other non-renewable resources are subject to severance taxes.

The amount of severance tax due the state is computed by taking the greater of a cents per unit volume (bbl or mcf) or percentage of value basis and multiplying that figure by an economic limit factor. The value of the oil or gas for most tax purposes is computed using a net-back method where the delivery price has transportation charges subtracted from it to arrive at the field price on which the tax is based. The Economic Limit Factor (ELF) is an adjustment to the nominal tax rate made to account for the fact that there is a point in the life of any producing property at which production is just barely commercially feasible. The farther production is above the economic limit, the higher the ELF and the higher the tax. As production decreases and the rate approaches the economic limit, the tax will decrease to the point where there is no tax at all when the production reaches the economic limit.

Oil severance taxes contributed \$1,485,805,693.34 to the State's general fund in FY 83 with gas severance taxes adding another \$7,521,633.98. These amounts together constitute approximately 66% of the \$2,268,665,341.19 collected by the Department of Revenue for that year. Attached is a table showing the relationship between total unrestricted revenue and oil and gas production taxes for the years FY 59 through FY 85.

Oil Production Tax

Nominal Tax Rates

15% of the gross value at the point of production

except

12.25% of the gross value at the point of production for five years after the start of commercial production if commercial production commenced after June 30, 1981.

Minimum tax is the equivalent of \$.80 per barrel.

Effective Tax Rates For Oil

Through the operation of the ELF and the tax exemption for the 1/8 royalty share of oil belonging to the State, the effective production tax rate varies between 0 and 13 1/8% on state owned lands. There is no tax on oil production at the economic limit and an effective rate of 7/8 of 1% for oil subject to the maximum tax. The ELF for the Prudhoe Bay and Kuparuk fields is currently 1 for an average effective tax rate of 13 1/8%. The ELF for Cook Inlet, based on a weighted average for the first six months of 1983, was calculated to be 0.208248 for an average tax rate of approximately 2 3/4%.

Gas Production Tax

Nominal Tax Rates

10% of the gross value at the point of production

Minimum tax is the equivalent of \$0.064 per Mcf

Effective Tax Rate For Gas

The State of Alaska also enjoys a 1/8 royalty share of gas production which is exempt from production tax. Through the operation of the ELF and the amount of royalty gas which is tax exempt, the effective tax rate for gas varies between 0 and 8 3/4%.

Production Taxes Have Contributed Substantially To The General Fund Only In Recent Years. Oil and Gas Production Revenues Will Peak In The Latter Half Of The Decade And Then Decline.

Total oil and gas production taxes have risen from a little over \$1,000 in 1959 to over \$1 billion in 1981. The portion of the unrestricted revenues in the general fund of the State from production taxes has increased from 0.004% in 1959 to over 31% in 1981. Production taxes first exceeded \$1 million in 1968, the same year that those taxes contributed more than 1% of the total unrestricted revenues. The biggest increase in production tax contributions occurred during 1978, when Prudhoe Bay began producing and production tax collections increased 450% over 1977, from \$23,652,000 to \$107,600,000.

Because oil and gas are non-renewable resources, production life is dependent on the amount of recoverable reserves and production economics. The best estimates available predict that production of oil and gas will peak during FY 1987. Oil production revenues will peak in 1986 in 1983 dollars and in 1989 in current dollars. In subsequent years, as production and revenue decline, Alaska will suffer not only from less income but also from the lack of potential income because the resources will be depleted.

TOTAL UNRESTRICTED REVENUE AND OIL AND GAS PRODUCTION TAXES

AND

PORTION OF TOTAL UNRESTRICTED REVENUE ATTRIBUTABLE TO PRODUCTION TAXES

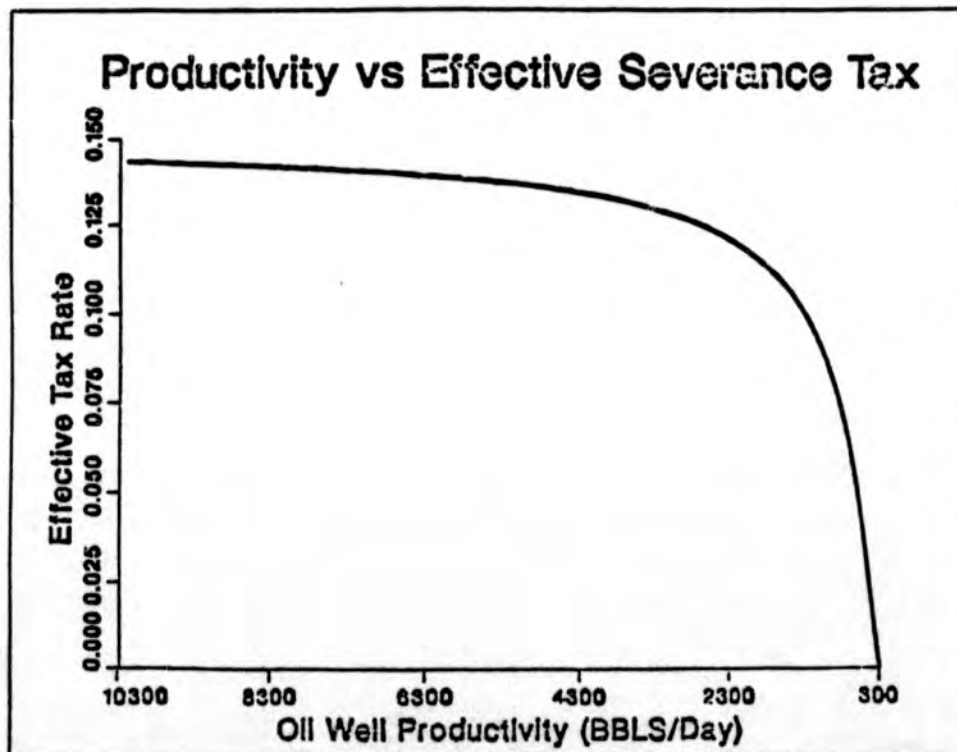
<u>FISCAL YEARS</u>	<u>TOTAL UNRESTRICTED REVENUE (\$000)</u>	<u>TOTAL OIL AND GAS PRODUCTION TAX (\$000)</u>	<u>PORTION OF UNRESTRICTED REVENUE ATTRIBUTABLE TO PRODUCTION TAXES</u>
1959	25,379	1	0.004%
1960	48,008	3	0.01%
1961	40,529	27	0.07%
1962	68,947	207	0.30%
1963	71,630	293	0.41%
1964	66,980	303	0.45%
1965	82,964	317	0.38%
1966	86,451	329	0.38%
1967	86,559	511	0.59%
1968	112,707	1,187	1.05%
1969	112,416	4,007	3.56%
1970	1,067,264	5,940	0.56%
1971	220,416	9,927	4.50%
1972	219,166	11,401	5.20%
1973	208,154	12,028	5.78%
1974	255,031	14,760	5.79%
1975	333,351	26,542	7.96%
1976	709,762	27,901	3.93%
1977	874,264	23,652	2.71%
1978	764,900	107,600	14.07%
1979	1,133,000	173,581	15.32%
1980	2,501,200	506,162	20.24%
1981	3,718,200	1,169,878	31.46%
1982	4,108,400	1,581,747	38.50%
1983	3,630,500	1,514,500	41.70%
1984 (est.)	3,071,200	1,281,300	41.70%
1985 (est.)	3,165,900	1,310,900	41.40%

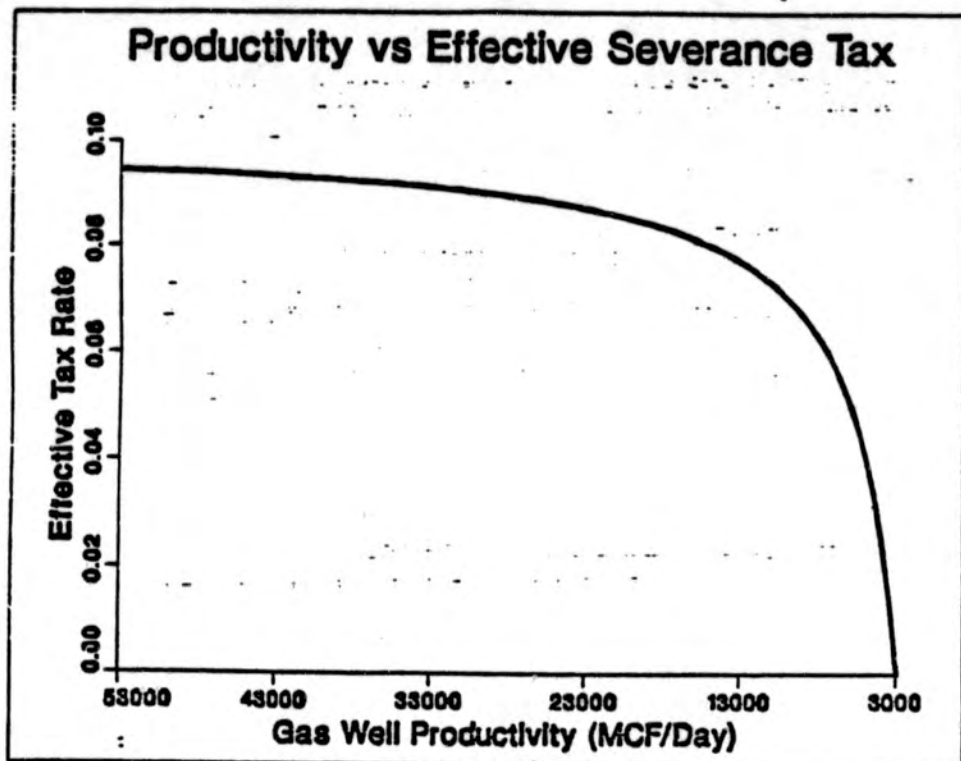
COMPUTATION OF THE TAX

Oil and gas production tax reports are filed monthly by taxpayers having oil and/or gas production in Alaska. The report contains the volume and value of production from each property, description of the quality of the oil produced, calculation of the economic limit factor and computation of the amount of tax due. The taxpayer must file the oil and gas production tax report on or before the last of the month subsequent to the month of production for which the tax is being paid. Payments of \$50,000 or more must be wire transferred through the Federal Reserve wire transfer system on or before the last banking day of the month in which the payment is due and payments of less than \$50,000 must be postmarked on or before the last day of the month in which the payment is due.

The tax due is the greater of a percentage of value or cents per unit volume of production. The cents per volume of oil is \$0.80/bbl and per volume of gas is \$0.064/mcf. The nominal rates are 15% of value for oil (12.25% for the first five years if the property came into production after 6/30/81) and 10% for gas. The economic limit factor is used in the final calculation of the tax to adjust the amount of tax due the State of Alaska, decreasing the tax as production approaches the economic limit of production volume and increasing the tax toward the nominal rate as production rises above the economic limit. (A discussion of the economic limit factors for oil and gas follows.)

The application of the economic limit factor to the nominal tax rate in the ad valorem calculation causes the effective tax rate to vary. The following graphs illustrate the effective tax rate as the volume of oil and gas production varies. Note that in the first 10 years of oil production, if the economic limit factor is computed to be greater than 0.7, the factor is 1. The graph for the effective tax rate for oil is for production after the first 10 years when the actual computed economic limit factor is used.





All of the current production of oil and gas in Alaska is from State and Federal lands. Because the royalty oil and gas to the State and Federal Governments are exempt from tax, only 7/8 of the total oil and gas production is taxed, or in other words, 1/8 of the oil and gas production is free from severance tax. Referring to the graphs on the previous page, which presume 100% of production is taxable, the current actual effective tax rate is 1/8 below the levels shown on the graphs.

The economic limit factors for oil and gas seek to encourage new production and longer production in the declining period of a well by reducing

the effective tax rate as production approaches the economic limit. The computation of the economic limit factor is different for oil and gas production.

VALUATION OF THE OIL

The production tax due the state is based on the value of the oil in the field where it was produced. The value is determined by taking the price the oil was sold for at the refinery gate or the prevailing value, whichever is greater, and subtracting the cost of transporting the oil from the Valdez terminal to the point of sale and the Trans-Alaska Pipeline System tariff. This net-back process gives the value of the oil upon which the tax is determined.

Examples:

A. In January, 1982, Alaskan oil was sold on the U.S. west coast with a refinery gate price of \$29.75 per barrel. The tanker tariff from Valdez was \$1.20 and the TAPS tariff was \$6.00. Subtracting the tariffs from the refinery gate price gave a field value of \$22.55, the amount on which the tax would be based.

B. Also in January, 1982, oil was sold on the Gulf Coast with a refinery gate price of \$31.55 per barrel. The tanker tariff from Valdez was \$4.90 and the TAPS tariff was \$6.00. Subtracting the tariffs gave a field value of \$20.65.

Two things are important to note: 1) the tax is computed on the field price and not on the refinery gate price, and 2) the field price will vary according to the tariffs even if the refinery gate price is constant.

Taking another hypothetical, suppose the refinery gate price was reduced from \$30 to \$27, a 10% reduction. If the original field price was \$21 and there were no changes in the tariffs, the value of the oil would be reduced to \$18 for the purposes of the tax. Thus a 10% drop in the refinery gate price corresponded to more than a 14% drop in the value of the oil in the field and a 14% reduction in the tax.

VALUATION OF THE GAS

The value determination for gas production for the purposes of the production tax is similar to that of oil. The greater of the sales price or prevailing value of the gas is reduced by the producer's reasonable costs of transportation from the point of production to the sales delivery point and further reduced by the producer's reasonable costs incurred downstream of the point of production for processing, conditioning and preparing gas and gas plant liquids for sale.

THE ECONOMIC LIMIT FACTOR FOR OIL

Alaska encourages new production and complete recovery through the application of an economic limit factor to the basic tax rate. The economic limit factor (ELF) decreases the effective rate of the tax as production decreases.

The economic limit factor for oil is:

$$ELF = 1 - \frac{PEL}{TP} \exp \frac{460 \times WD}{PEL}$$

where

PEL = monthly production at the economic limit

TP = the total production during the month for which the tax is to be paid

WD = the total number of well days in the month for which the tax is to be paid

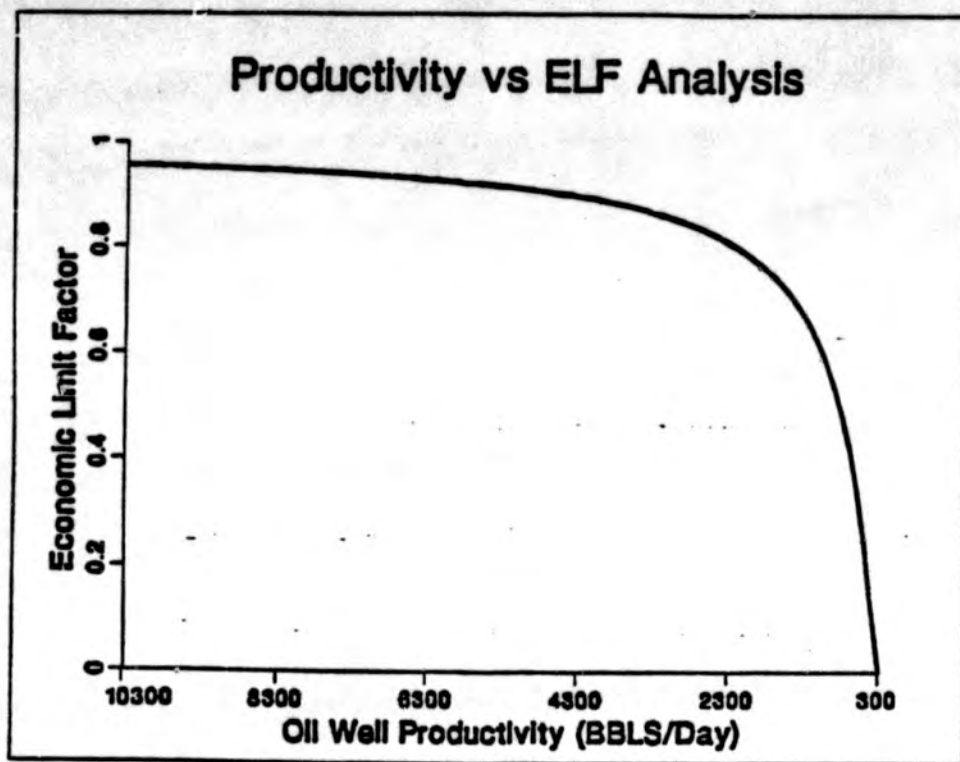
and where "exp" indicates that the expression following it is an exponent.

During the first 10 years of oil production if the ELF is computed to be greater than 0.7, the factor used will be one. If the computed ELF is 0.7 or less, the actual computed factor is applied. After the first 10 years the actual computed factor is used in all cases.

The monthly production rate at the economic limit is presumed to be 300 barrels times the number of well days for the lease or property during the month for which the tax is to be paid. The taxpayer may rebut the presumption by offering clear and convincing evidence supporting a different monthly production rate at the economic limit.

A well is producing at the economic limit when the value of production during the month equals the average monthly direct operating cost for oil production. Direct operating costs include only royalty, production supplies, purchased fuel, routine maintenance, and wages and benefits of employees working on the production operations. The average direct operating cost is determined by using a period of at least four consecutive months.

The following is a graph of the ELF showing how the factor decreases as the production of the well declines:



To compute the amount of production (severance) tax due, the tax rate is multiplied by the value of the oil produced with that result multiplied by the ELF.

EXAMPLES USING THE ELF

The following are two examples using the ELF. For both assume: (1) the property went into production in 1974; (2) the applicable nominal tax rate is 15%; (3) the tax is being computed for the month of October, 1981; (4) the properties operated 70 well days (WD); (5) production at the economic limit was 300 bbl/day; (6) 87.5% of the total production is subject to tax.

- A. Total barrels produced for the month: 400,000 barrels (TP)
 Value of production at well head: \$8,750,000
 Production at the Economic Limit: 300 bbl/day x 70 well days = 21,000 (PEL)

$$ELF = 1 - \frac{21,000}{400,000} \exp \frac{460 \times 70}{21,000}$$

$$ELF = 0.920636$$

Because the production is in the first 10 years and ELF is greater than 0.7, ELF will be treated as equal to 1.

$$\begin{array}{rcl} \$8,750,000 \times 87.5\% \times 15\% \times 1 & = & \$1,148,437.50 \\ \text{Value of Taxable Production} & \text{Tax Rate} & \text{Tax Amount Due State} \end{array}$$

The effective tax rate on the taxable oil = 15%

- B. Total barrels produced for the month: 40,000 barrels (TP)
 Value of production at well head: \$875,000
 Production at the Economic Limit: 300 bbl/day x 70 well days = 21,000 (PEL)

$$ELF = 1 - \frac{21,000}{40,000} \exp \frac{460 \times 70}{21,000}$$

$$ELF = 0.319348$$

$$\$875,000 \times 87.5\% \times 15\% \times 0.319348 = \$36,675.12$$

$$\begin{array}{rcl} \text{Value of Taxable Production} & \text{Tax Rate} & \text{Tax Amount Due State} \\ & & \text{ELF} \end{array}$$

Effective tax rate on the taxable oil = 4.19%.

As can be seen from the graph of the ELF and the examples above, as production approaches the economic limit, ELF approaches zero.

Because of the application of the ELF, the effective tax rate on taxable production varies between 0 and 15%.

THE ECONOMIC LIMIT FACTOR FOR GAS

Alaska encourages new production and complete recovery through the application of an economic limit factor to the basic tax rate. The economic limit factor (ELF) decreases the effective rate of the tax as production decreases.

The economic limit factor for gas is:

$$ELF = 1 - \frac{PEL}{TP}$$

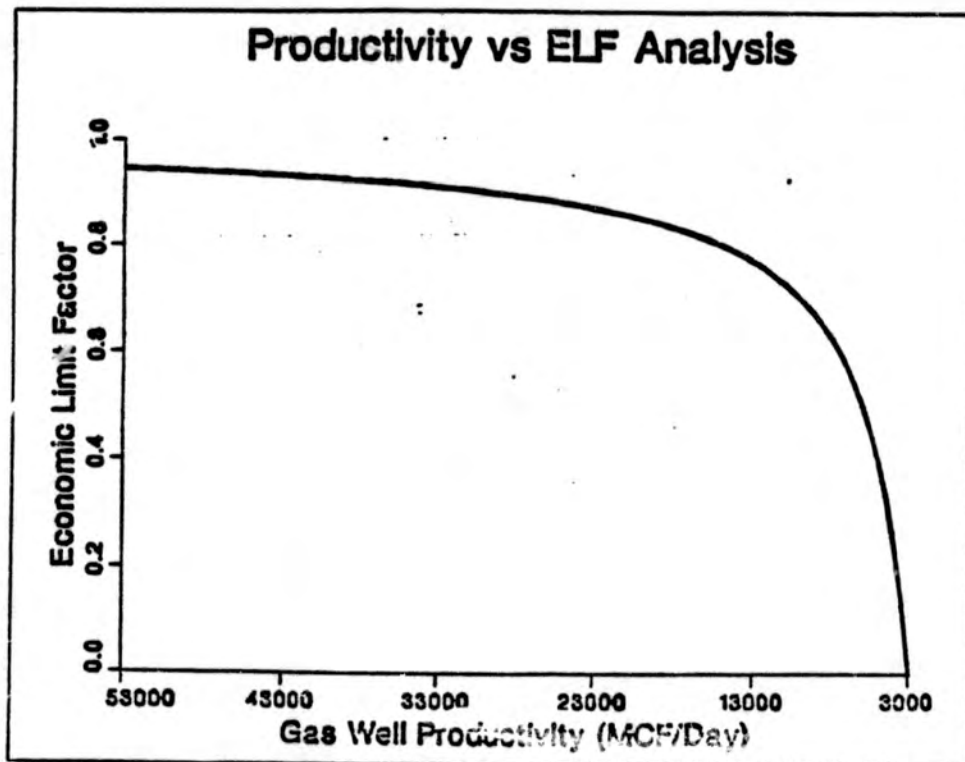
where

PEL = monthly production at the economic limit
 TP = the total production during the month for which the tax is to be paid

The monthly production rate at the economic limit is presumed to be 3,000 mcf times the number of well days for the lease or property during the month for which the tax is to be paid. The taxpayer may rebut the presumption by requesting a formal hearing and offering clear and convincing evidence supporting a different monthly production rate at the economic limit.

A well is producing at the economic limit when the value of production during the month equals the average monthly direct operating cost for gas production. Direct operating costs include only royalty actually and currently paid, production supplies, purchased fuel, routine maintenance, and wages and benefits of employees working on the production operations. The average operating cost is determined by using a period of at least four consecutive months.

The following is a graph of the ELF showing how the factor decreases as the production of the well approaches the economic limit:



To compute the amount of production (severance) tax due, the tax rate is multiplied by the value of the oil produced with that result multiplied by the ELF.

EXAMPLES USING THE ELF:

For both examples assume: (1) the applicable nominal tax rate is 10%; (2) the tax is being computed for the month of October, 1981; (3) the properties operated 70 well days; (4) production at the economic limit was 3,000 mcf/day; (5) 1/8 of the gas production is exempt from tax; (6) the well head value of the gas is \$.70/mcf.

- A. Total Production (TP): 1,050,000 mcf
 Total Value of Production: \$735,000.00
 PEL = 3,000 mcf/day x 70 well days (WD) = 210,000

$$ELF = 1 - \frac{210,000}{1,050,000}$$

$$ELF = 0.800000$$

$$\$735,000 \times 87.5\% \times 10\% \times 0.800000 = \$51,450.00$$

Value of Production	Taxable Prod.	Tax Rate	ELF	Tax Amount Due State
------------------------	------------------	-------------	-----	-------------------------

The effective tax rate on the taxable gas is 8%.

The effective tax rate on the total production is 7%.

- B. Total Production (TP): 262,500 mcf
 Total Value of Production: \$183,750.00
 PEL = 3,000 mcf/day x 70 well days (WD) = 210,000

$$ELF = 1 - \frac{210,000}{262,500}$$

$$ELF = 0.200000$$

$$\$183,750 \times 87.5\% \times 10\% \times 0.200000 = \$3,215.63$$

Value of Production	Taxable Prod.	Tax Rate	ELF	Tax Amount Due State
------------------------	------------------	-------------	-----	-------------------------

The effective tax rate on the taxable gas is 2%.

The effective tax rate on the total production is 1.75%.

Because of the application of the ELF, the effective tax rates on total gas production vary between 0 and 10%.

HISTORY OF OIL AND GAS SEVERANCE TAXES IN ALASKA

In 1955 the Alaska Legislature enacted two measures that imposed a tax on the production of crude oil and natural gas in the state. One of those statutes represents the foundation from which the state's existing oil and gas production properties tax evolved but the rate of tax at that time was only one percent of the gross value of that production. The other statute, that has since been repealed, was a conservation tax of five mills for each barrel of oil and every 50,000 cubic feet of gas produced.

Between 1955 and 1967 no changes were made in this tax structure. Then, in 1967, the legislature convened in a special session to provide statutory relief for the victims of the Fairbanks flood in that year. Faced with these emergency programs, the legislature enacted an additional one percent disaster severance tax based on the gross value of oil and gas production.

In 1968 the legislature raised the "regular" production tax from one percent to three percent, but did not change the one percent disaster severance tax or the five mill conservation tax.

In 1979, the legislature by amendment, embodied a progressive or "stair-stepped" rate structure for oil based on average daily production per well. The rates were three percent on the first 300 barrels per day, five percent on the next 700, six percent on the next 1,500 and eight percent on the production exceeding 2,500 barrels per day. Gas production was taxed at four percent. Since the one percent disaster severance tax and the five mill conservation tax were simultaneously repealed, there was no increase in the overall nominal gas tax rate.

In 1972 the Joint Pipeline Impact Committee requested legislation be enacted to protect state revenues from unacceptably low wellhead prices at Prudhoe Bay as the result of the high pipeline tariffs that could stem from either inadequate tariff regulation or construction cost overruns, or both. In response to that request the legislature enacted a cents-per-barrel tax with a credit for royalties paid to the state. If the cents-per-barrel tax, minus the royalty credit exceeded the tax collected under the existing percentage-of-value method, then the cents-per-barrel tax would be payable; however, almost immediately after this tax was enacted it became subject to litigation.

As a result, the tax measure that emerged from the 1973 Special Session of the Legislature repealed the royalty credit provision, increased the effective tax rate as it would apply to oil production by increasing the effective floor of the cents-per-barrel tax from \$2.65 to \$3.375 and instead of four "stair steps" there were three: the first 300 barrels a day from a well were taxed on the higher of five percent of the oil's value or \$0.16875 per barrel, the next 700 at six percent or \$0.2025 per barrel, and all production over 1,000 barrels a day at eight percent or \$0.27 per barrel. In addition, the cents-per-barrel amounts

increased or decreased by two percent for each degree of API gravity above or below 27 degrees. Thus a complete schedule of three cents-per-barrel rates (one for each "stair step") could be established for various API gravities. The whole schedule of rates was in turn to be increased or decreased monthly based on changes in the Wholesale Price Index for crude oil, published by the U.S. Bureau of Labor Statistics. The tax on gas production remained a simple four percent of value. In addition, an oil and gas regulation and conservation tax at a rate of \$0.00125 per barrel removed or sold was enacted during this legislative session.

In 1976 no changes were made to the production tax rates but the legislature did replace the "cash price prevailing" language with "prevailing value" and enacted a section titled "Determination of Gross Value". That section of the production tax statutes made it very clear that value is to be determined by using reasonable costs of transportation, if any. Therefore, to the extent of any previous confusion these changes made it obvious that the legislature did not believe the terms price and value were necessarily synonymous and that taxable gross value is to be determined by subtracting reasonable transportation costs from the full consideration realized by the producer at the point of sale.

The production tax was amended again in 1977 when the legislature enacted a statute to adopt an economic limit factor (ELF) for the purpose of reducing the effective production tax rate as the amount of production from a lease or property declines. Therefore, while the nominal tax rate for oil was 12.25 percent, and 10 percent for gas, in both cases the actual rate was determined by applying the ELF. The cents-per-barrel and cents-per-mcf rates were also subject to the ELF. Nominally they were 6.4 cents per mcf (corresponding to a 64 cent floor), 60 cents per barrel for "old oil" (a \$4.90 floor) and 80 cents for all other oil (a \$6.53 floor). Before being reduced by the ELF, the cents-per-barrel amounts were adjusted up or down by a half-cent for each degree above or below 27 degrees API gravity. There is no automatic escalator for either the cents-per barrel or cents-per-mcf rates; instead the Department of Revenue could recommend any changes to the rates that may be appropriate in light of transaction prices and market conditions. Also, the removed and sold standard that historically was used as the measure of taxable production was changed to a produced standard. At the same time, as a result of Alaska's protracted royalty litigation with oil and gas producers in the Cook Inlet area, the definitions of the point of production were either established or better defined.

It is also noteworthy that some of the complexities of this 1977 legislation caused the Department of Revenue to promulgate the state's first substantive interpretive production tax regulations that eventually became the nucleus of the more sophisticated versions promulgated by the Department in 1980, 1981 and 1982.

The remaining major amendment to the production tax statute occurred in 1981 when the nominal rate of tax on oil was changed from

12.25 percent to 15 percent on any oil produced after June 30, 1981 from a lease or property that was in commercial production prior to that date. The nominal rate of tax on oil produced from a lease or property coming in to production after that date is 12.25 percent during the first five years of production and 15 percent thereafter. Also, modifications were made to the economic limit factors for both gas and oil. The major impact of this legislation changed the effective rate of this tax on over 90 percent of the oil produced in Alaska from approximately 11.5 percent to 15 percent. That change, based on the unaudited reported value of production, increased the amount of production tax revenues by about \$350 million for FY 82 and \$325 million for FY 83.

On the following page is a summary of production events and tax changes by year beginning in 1954.

OIL AND GAS PRODUCTION AND TAX TIMELINE

- 1954 - BLM issued 272 oil and gas leases
- 1955 - Oil and gas conservation tax enacted (5 mills)
 - Production tax enacted (1% of value of production)
- 1957 - Swanson River oil discovered
- 1959 - Kenai gas field discovered
- 1962 - Cook Inlet oil discovered
- 1965 - Three additional Cook Inlet oil fields discovered
- 1967 - Fairbanks struck by flood
 - 1% disaster severance tax enacted
- 1968 - Legislature increased oil severance tax from 1% to 3%
 - Prudhoe Bay oil discovered
- 1969 - Prudhoe Bay lease sale
- 1970 - Disaster severance and conservation taxes repealed
 - Oil production tax changed to a graduated tax
 - Gas severance tax increased to 4%
- 1972 - Minimum tax established based on "cents per barrel" equivalent to percent of value tax on oil with wellhead value of \$2.65
- 1973 - Effective oil tax rates increased
 - Five mill tax on oil for conservation reenacted
 - OPEC quadrupled world market price for crude oil
- 1977 - Nominal tax rate on oil increased to 12.25%
 - Nominal tax rate on gas increased to 10%
 - Economic Limit Factor introduced to adjust effective tax rates
 - New floors for oil and gas severance taxes established
 - Prudhoe Bay oil began flowing to Valdez
- 1979 - Prudhoe Bay well head prices increased from \$5.80 per barrel in January to \$10.57 in June as a result of the loss of imports from Iran.
- 1981 - Nominal tax rates on oil increased to 15%
 - Tax on oil production beginning after 6/30/81 remained 12.25% for the first five years of production
 - Oil ELF equal to 1 if calculated to be greater than 0.7 during first 10 years of production
 - Kuparuk field production began

OIL AND GAS PRODUCTION STATISTICS

COOK INLET

JUNE 1977 - JUNE 1983

CUMULATIVE TOTALS FOR PERIODS SHOWN	OIL VOLUME (Bbls) ^{2/}	GAS VOLUME (Mcf) ^{2/}	OIL PRODUCTION TAX (\$)	GAS PRODUCTION TAX (\$)	"EDIC" APPLIED (\$)	KACHEMAK BAY CREDIT (\$)	NET TOTAL PRODUCTION TAX (\$)	AVG. WELL- HEAD PRICE OIL (\$) ^{1/}	AVG. WELL- HEAD PRICE GAS (\$) ^{1/}	AVG. ELF FACTOR (OIL)
Jan. - Jun. 1983	12,547,101	92,066,174	8,769,716	3,714,735	-0-	-0-	12,484,451	25.57	.65	.208248 ^{3/}
Jan. - Dec. 1982	27,430,241	182,749,310	22,353,624	7,419,907	-0-	-0-	29,773,531	28.20	.56	.220176 ^{3/}
Jan. - Dec. 1981	31,540,094	181,053,934	30,940,621	8,921,580	-0-	(81,134)	39,781,067	30.82	.55	.269996
Jan. - Dec. 1980	36,080,675	152,026,554	14,404,968	9,514,815	-0-	(161,931)	23,757,852	10.44	.57	.356774
Jan. - Dec. 1979	42,989,134	173,234,975	13,200,800	9,811,862	-0-	(213,338)	22,799,324	6.16	.67	.482683
Jan. - Dec. 1978	84,494,775	168,752,824	16,474,303	9,169,828	(1,930,280)	(598,071)	23,115,780	*	*	*
Jun. - Dec. 1977	32,263,181	92,581,361	11,111,280	4,686,387	(2,448,513)	(601,365)	12,747,789	*	*	*

^{1/} Volume Weighted Averages per Month divided by Number of Months (6). Volumes and prices are as reported by taxpayers.

^{2/} Does not include FFGU's.

^{3/} Column 1 x .875 x .15 x Column 8 divided into Column 3 = Est'd Avg. ELF.

All information was compiled from unaudited revenue and production reports prepared by Petroleum Revenue Division.

* This information is currently being compiled from tax returns. All information prior to June 1977 is only available on tax returns.

Unable to compute as average wellhead price is not readily available.

OIL AND GAS PRODUCTION STATISTICS

KUPARUK

DECEMBER 1981 - JUNE 1983

<u>CUMULATIVE TOTALS FOR PERIODS SHOWN</u>	<u>OIL VOLUME (Bbls)^{2/}</u>	<u>GAS VOLUME (Mcf)^{2/}</u>	<u>OIL PRODUCTION TAX (\$)</u>	<u>GAS PRODUCTION TAX (\$)</u>	<u>"EDIC" APPLIED (\$)</u>	<u>KACHEMAK BAY CREDIT (\$)</u>	<u>NET TOTAL PRODUCTION TAX (\$)</u>	<u>AVG. WELL- HEAD PRICE OIL (\$)^{1/}</u>	<u>AVG. WELL- HEAD PRICE GAS (\$)^{1/}</u>	<u>AVG. ELF FACTOR (OIL)</u>
Jan. - Jun. 1983	18,639,253	55,419	32,463,819	11,021	-0-	-0-	32,474,840	16.25	2.96	1.0
Jan. - Dec. 1982	32,293,319	97,907	62,543,492	20,824	-0-	-0-	62,564,316	18.04	2.78	1.0
Dec. 1981 *	1,091,519	840	2,315,084	215	-0-	-0-	2,315,299	20.16	-0-	1.0

^{1/} Volume Weighted Averages per Month divided by Number of Months (6). Volumes and prices are as reported by taxpayers.

^{2/} Does not include FFGU's.

All information was compiled from unaudited revenue and production reports prepared by Petroleum Revenue Division.

* First production month.

OIL AND GAS PRODUCTION STATISTICS

PRUDHOE BAY

JUNE 1977 - JUNE 1983

CUMULATIVE TOTALS FOR PERIODS SHOWN	OIL VOLUME (Bbls) ^{2/}	GAS VOLUME (Mcf) ^{2/}	OIL PRODUCTION TAX (\$)	GAS PRODUCTION TAX (\$)	"EDIC" APPLIED (\$)	KACHEMAK BAY CREDIT (\$)	NET TOTAL PRODUCTION TAX (\$)	AVG. WELL- HEAD PRICE OIL (\$) ^{1/}	AVG. WELL- HEAD PRICE GAS (\$) ^{1/}	AVG. ELF FACTOR (OIL)
Jan. - Jun. 1983	277,761,455	6,446,250	635,665,841	1,029,698	-0-	-0-	636,695,539	17.53	1.85	1.0
Jan. - Dec. 1982	515,620,937	12,992,451	2,337,172,087	2,022,396	-0-	-0-	2,339,174,483	19.85	1.69	1.0
Jan. - Dec. 1981	555,309,026	12,054,033	1,484,676,382	1,829,274	-0-	-0-	486,505,656	23.28	1.79	.9665
Jan. - Dec. 1980	555,544,254	11,167,174	938,226,620	1,885,513	(67,736,587)	-0-	872,375,552	16.83	1.92	.9373
Jan. - Dec. 1979	466,800,530	8,979,019	481,984,529	1,384,103	(249,234,145)	-0-	234,134,487	10.32	1.83	.9406
Jan. - Dec. 1978	398,384,187	7,170,771	263,273,797	1,058,786	(131,848,681)	(826,202)	131,657,700	5.18	1.81	.9433
Jun. - Dec. 1977	112,764,786	1,954,509	74,694,689	227,248	(37,443,362)	(351,096)	37,127,479	6.54	1.69	.9403

^{1/} Volume Weighted Averages per Month divided by Number of Months (6). Volumes and prices are as reported by taxpayers.

^{2/} Does not include FFGU's.

All information was compiled from unaudited revenue and production reports prepared by Petroleum Revenue Division.

Data for Columns 1 through 7 is calculated from revenue and production statements prepared by Petroleum Revenue Division.

Data for Columns 8 through 10 is calculated from unaudited worksheets and company tax returns on file with Petroleum Revenue Division.

SYNOPSIS

Oil and Gas Taxation/Royalty Compliance

The primary purpose of the Petroleum Revenue Division Audit section is to monitor Alaska oil and gas producers to ascertain whether they have complied with the following tax statutes:

AS 43.55 Oil and Gas Properties Production Tax
 AS 43.21 Oil and Gas Corporate Income Tax (During the Period of 1978-1981)
 AS 43.57 Oil and Gas Conservation Tax

In addition to this function, Pet Rev has an equally important duty to perform audits of royalty and net profit share lease obligations incurred by oil and gas producers in accordance with AS 38.05 and issue those reports along with the relevant supporting documentation to the Department of Natural Resources for enforcement purposes.

The Petroleum Revenue Division is current comprised of thirty people of which twelve are fully dedicated to this audit activity. In addition to these twelve, there is an informal conference officer who deals solely with administrative appeals arising out of Petroleum Revenue tax audits.

The importance of examining the producers' tax and royalty obligations can best be illustrated by the following comparison of returns and reports examined and those ultimately adjusted and the related dollar amounts:

	<u>1980-81 Audited</u>	<u>Returns and Reports Adjusted</u>	<u>Gain</u>
Production Tax AS 43.55	210	123	\$ 8,900,000
Income Tax AS 43.21	10	7	2,200,000
Royalty Reports AS 38.05	<u>309</u>	<u>149</u>	<u>11,800,000</u>
Total	<u>529</u>	<u>279</u>	<u>\$22,900,000</u>
	<u>1981-82 Audited</u>	<u>Returns and Reports Adjusted</u>	<u>Gain</u>
Production Tax AS 43.55	2,180	1,162	\$22,500,000
Income Tax AS 43.21	10	7	43,600,000
Royalty Reports AS 38.05	<u>309</u>	<u>149</u>	<u>5,400,000</u>
Total	<u>2,502</u>	<u>1,324</u>	<u>\$71,500,000</u>
	<u>1982-83 Audited</u>	<u>Returns and Reports Adjusted</u>	<u>Gain</u>
Production Tax AS 43.55	637	231	\$100,700,000
Income Tax AS 43.21	15	13	4,800,000
Royalty Reports AS 38.05	<u>55</u>	<u>55</u>	<u>54,100,000</u>
Total	<u>707</u>	<u>299</u>	<u>\$159,600,000</u>

The first comprehensive field audit by the State of production taxes (AS 43.55) was not completed until 1979, oil and gas corporate income tax (AS 43.21) in 1980, and royalty obligations (AS 38.05) in 1981. These are the first major efforts that will test the meaning of these tax statutes and how the terms of the State's oil and gas leases are to be applied to a producer's circumstances. In short, there is little precedent, judicial or administrative, in Alaska's history from which to draw for guidance, and it has been necessary to evaluate the experience of federal and other state jurisdictions concerning oil and gas matters to decide how those determinations in principle may or may not apply to the situations at issue in Alaska.

In the future, Pet Rev anticipates the dedication of more effort to the examinations conducted under AS 38.05.036 because current estimates by the Department of Natural Resources indicate that, in addition to the existing producers' royalty obligations, the estimated number of outstanding net profit share sliding scale royalty leases by December of 1983 will be about 400 and increasing to 2,000 by 1985.

While it is difficult to predict the number of leases that will produce commercial quantities of oil and gas, the potential audit activity here plus that required in conjunction with the Exploration Incentive Credits offered to some leaseholders by the Department of Natural Resources will significantly increase the demands on the audit function of this Division.

The Division begins the audit function by reviewing all producers' tax and royalty returns where a material liability exists. Generally speaking this approach is contrary to usual tax administration, the reason being because a minor change like a half-cent an Mcf of gas or a penny a barrel of crude oil can very quickly translate into millions of dollars owing to the State. It is, therefore, important to examine every return and report filed by each taxpayer, of which there are, excluding amended returns, presently about 165 production tax reports filed each month and 23 income tax returns filed annually for the periods of 1978 through 1981. The number of royalty returns excluding net profit share leases would approximate the number of production tax returns filed with the Department of Revenue each month.

Duties performed in the course of conducting these audits involve extensive research including analysis and application of principles promulgated by various regulatory agencies. Additional work involves obtaining and analyzing current and historical data pertaining to world and domestic oil and gas production, processing and marketing as well as engineering information specific to the various categories of oil and gas reserves for each lease or property in Alaska.

Among the techniques used by this Division for the purpose of verifying a producer's tax obligation is a comparison of tax returns to royalty reports for both a single producer and between different producers. Taxpayers' recorded transactions are, where appropriate, tested by using scientific statistical sampling methods, including,

whenever possible, the use of machine sensible data in the sampling process. Extensive use of EDP capabilities is also made for the purpose of calculating producers' obligations where that producer has multiple interests of a complex nature or is selling its production under numerous sales contracts.

Most of the issues arising from these audits fall into the major categories of value (full consideration), point of value which in turn triggers the whole gambit of related vs. nonrelated expenses such as transportation costs, overhead costs, and prevailing value. Similar arguments have arisen from the audits of royalty obligations conducted by Pet Rev.

REVENUE IMPACT OF FCCS SB524, CH. 116 SLA 1981

Chapter 116, SLA 1981 amended the oil and gas corporate income tax and the oil and gas severance tax in the following manner:

1. AS 43.55, prior to the amendments, provided for a tax on oil production amounting to 12.25 percent of the gross value at the point of production modified by an economic limit factor (ELF) set forth in AS 43.55.013. The ELF factor on Prudhoe Bay production during FY 1982 was approximately .9249 which led to an effective rate of 11.33 percent. This rate would decline as production at Prudhoe Bay became more marginal. The ELF on Cook Inlet production in FY 1982 averaged approximately .2864 which led to an effective rate of 3.51 percent. The tax rate on gas was 10 percent of the gross value at the point of production modified by an ELF factor.
2. The bill increased the rate of tax to 15 percent on oil production (except that for fields commencing commercial production after June 30, 1981, the rate would be 12.25 percent for the first five years) times the ELF factor which was equal to one as long as it exceeded .7 during the first ten years of production. See AS 43.55.011(b) and AS 43.55.013(b)(4). Thus the rate on Prudhoe Bay production is currently $15\% \times 1 = 15\%$, Kuparuk is $12.25\% \times 1 = 12.25\%$, and Cook Inlet is approximately $15\% \times .2864 = 4.30\%$. The gas severance tax rate was unchanged although the gas ELF factor calculation was modified. See AS 43.55.013(g). The increased severance tax rates were made effective July 1, 1981, or at the outset of FY 82.
3. The oil and gas corporate income tax method set forth in AS 43.21, known as separate accounting, was repealed and a new modified apportionment scheme was enacted effective January 1, 1981, which is contained in the new AS 43.20.072. This new method for attributing oil and gas income to the state combined with the introduction of a graduated rate structure set forth in AS 43.20.011(e) which decreased revenues from the overall corporate income tax.

The best way to illustrate the comparative revenues of the previous oil and gas tax structure with the structure put in place by the 1981 amendments is to compare the revenues which would be derived by both methods under the pricing assumptions contained in our June 1983 revenue forecast. The attached table should demonstrate the relationship.

It should be noted that the positive result in FY 82 was due to the early effective date of the severance tax increase and the fact that AS 43.21 remained in effect during the first half of FY 82. It should also be noted that, beginning with FY 84, estimates are consistently based on the department's more conservative 30 percent case, not the mean case generated by the Pet Rev model. However, this should not impact significantly the relationship of total revenues being compared.

Table 1
Change in Petroleum Corporate Income Tax and
Oil and Gas Severance Tax Due to Enactment of SB 524
FY 82-90 - June 1983 Forecast Assumption--Mean Case
(million \$)

Old Law

<u>FY</u>	<u>Severance Tax</u>	<u>Income Tax</u>	<u>Total</u>
82	1157.10	968.08	2125.18
83	1109.73	944.81	2054.54
84	986.91	878.28	1865.19
85	1064.95	884.71	1949.66
86	1120.82	934.99	2055.81
87	1191.03	981.67	2172.70
88	1258.27	1023.15	2281.42
89	1371.78	1106.88	2478.66
90	1455.58	1146.87	2602.45

New Law

<u>FY</u>	<u>Severance Tax</u>	<u>Income Tax</u>	<u>Total</u>
82	1581.10	668.90	2250.00
83	1493.70	236.20	1729.90
84	1374.04	250.00	1624.04
85	1457.36	282.00	1739.36
86	1567.24	312.00	1879.24
87	1672.55	363.00	2035.55
88	1504.76	399.00	1903.76
89	1653.55	421.00	2074.55
90	1746.70	446.00	2192.70

Change Due to New Law - New Law less Old Law

<u>FY</u>	<u>Severance Tax</u>	<u>Income Tax</u>	<u>Total</u>
82	+424.00	-299.18	+124.82
83	+383.97	-708.61	-324.64
84	+387.13	-628.28	-241.15
85	+392.41	-602.71	-210.30
86	+446.42	-622.99	-176.57
87	+481.52	-618.67	-137.15
88	+246.49	-624.15	-377.66
89	+281.77	-685.88	-404.11
90	+291.12	-700.87	-409.75

Table 1
Change in Petroleum Corporate Income Tax and
Oil and Gas Severance Tax Due to Enactment of SB 524
FY 82-90 - June 1983 Forecast Assumption--30% Case FY 84-90
(million \$)

Old Law

<u>FY</u>	<u>Severance Tax</u>	<u>Income Tax</u>	<u>Total</u>
82	1157.10	968.08	2125.18
83	1109.73	944.81	2054.54
84	919.01	836.75	1755.76
85	947.43	805.76	1753.19
86	995.92	841.44	1837.36
87	1044.93	867.18	1912.11
88	1077.71	882.82	1960.53
89	1135.33	923.68	2059.01
90	1091.80	867.79	1959.09

New Law

<u>FY</u>	<u>Severance Tax</u>	<u>Income Tax</u>	<u>Total</u>
82	1581.10	668.90	2250.00
83	1493.70	236.20	1729.90
84	1279.24	250.00	1529.24
85	1308.64	282.00	1590.64
86	1409.66	312.00	1721.66
87	1474.31	363.00	1837.31
88	1292.36	399.00	1691.36
89	1365.47	421.00	1786.47
90	1271.20	446.00	1717.20

Change Due to New Law - New Law less Old Law

<u>FY</u>	<u>Severance Tax</u>	<u>Income Tax</u>	<u>Total</u>
82	+424.00	-299.18	+124.82
83	+383.97	-708.61	-324.64
84	+360.23	-586.75	-226.52
85	+361.21	-523.76	-162.55
86	+413.74	-529.44	-115.70
87	+429.38	-504.18	-74.79
88	+214.65	-483.82	-269.17
89	+230.14	-502.68	-272.54
90	+179.40	-421.29	-241.89

JOINT STATEMENT ON OIL TAXES

Governor Jay Hammond and the leadership of both houses of the Legislature are united in an effort to arrive at the best course of action on pending oil and gas tax issues. Legal challenges by the oil industry have placed as much as one-third of the State's projected tax revenues in jeopardy.

Alaska's existing taxation and leasing policies currently provide significant incentives for petroleum exploration and development in the state. Hence, existing levels of taxation, stabilized since 1978, should remain stable at this time. On the other hand, any significant decreases in State oil and gas revenues appear both unwarranted and unsupported by the majority of Alaskans. The State's current level of taxation -- about one-sixth of the value of Prudhoe Bay production -- provides that both the oil companies and the federal government will receive greater shares of Alaska's wealth than will Alaskans. Accordingly, any greater percentage granted the former at the expense of the latter would be unequitable.

Both the Governor and the legislative leadership are determined that through their mutual efforts, a sound strategy for protecting oil and gas revenues will be found. All agree that any changes which would give large sums of money to the oil industry at the expense of the people of Alaska are unacceptable. The Prudhoe Bay bonanza will not last forever. We must make use of those revenues now through investments such as hydroelectric power, renewable resource development, and permanent fund contributions which will provide for our future.

(This statement was issued at a Joint Press Conference held on March 18, 1981. Participants included Governor Jay Hammond, President of the Senate, Jalmar Kerttula, Speaker of the House Jim Duncan, State Finance Chairmen Ed Dankworth and Don Bennett, House Finance Chairman Sam Cotten, Legislative Council Chairman Hugh Malone, Attorney General Wilson Condon and Commissioner of Revenue Tom Williams.)

Calculation of State Petroleum Revenue as a
Percentage of Adjusted Gross Production Income
6/83 Forecast Assumptions--30% Case Fy 84-87 Using WHV Net of Field Costs
(million \$)

<u>FY</u>	<u>Total Gross Production Income (1)</u>	<u>Expense (2)</u>	<u>Adjusted Gross Production Income (3)</u>
82	12085.36	1254.10	10831.26
83	11608.88	1563.34	10045.54
84	10121.28	1916.85	8204.43
85	10463.76	2452.79	8010.97
86	11394.08	2795.44	8598.64
87	12017.76	3185.73	8832.03

<u>FY</u>	<u>Total State Petroleum Revenue (4)</u>	<u>Adjusted Gross Production Income</u>	<u>State Petroleum Revenues as a Percentage of Adjusted Gross Production Income</u>
82	3903.37	10831.26	36.04
83	3331.02	10045.54	33.16
84	2974.40	8204.43	36.25
85	3098.61	8010.97	38.67
86	3367.52	8598.64	39.16
87	3579.03	8832.03	40.52

- (1) Total Gross Production Income for each fiscal year is the sum of Prudhoe Bay oil royalty, Cook Inlet oil royalty, and Cook Inlet gas royalty times eight.
- (2) Expense for each fiscal year is the sum of deductions under AS 43.21 for Prudhoe Bay and Cook Inlet less the Severance Tax, Royalty, and Property Tax deductions.
- (3) Adjusted Gross Production Income for each fiscal year is Total Gross Production Income less Expense.
- (4) Total State Petroleum Revenue for each fiscal year is the sum of Prudhoe Bay and Cook Inlet Oil and Cook Inlet Gas Royalties and Production Taxes, Oil and Gas Production and Pipeline Transportation Property Tax, and Petroleum Corporate Income Tax.

Calculation of State Petroleum Revenue as a
Percentage of Adjusted Gross Production Income
6/83 Forecast Assumptions--Mean Case Using WHV Net of Field Costs
(million \$)

<u>FY</u>	<u>Total Gross Production Income (1)</u>	<u>Expense (2)</u>	<u>Adjusted Gross Production Income (3)</u>
82	12085.36	1254.10	10831.26
83	11608.88	1563.34	10045.54
84	10873.44	1916.85	8956.59
85	11650.88	2452.79	9198.09
86	12697.76	2795.44	9902.32
87	13657.44	3185.73	10471.71

<u>FY</u>	<u>Total State Petroleum Revenue (4)</u>	<u>Adjusted Gross Production Income</u>	<u>State Petroleum Revenues as a Percentage of Adjusted Gross Production Income</u>
82	3903.37	10831.26	36.04
83	3331.02	10045.54	33.16
84	3163.22	8956.59	35.31
85	3395.72	9198.09	36.91
86	3688.06	9902.32	37.24
87	3982.23	10471.71	38.02

- (1) Total Gross Production Income for each fiscal year is the sum of Prudhoe Bay oil royalty, Cook Inlet oil royalty, and Cook Inlet gas royalty times eight.
- (2) Expense for each fiscal year is the sum of deductions under AS 43.21 for Prudhoe Bay and Cook Inlet less the Severance Tax, Royalty, and Property Tax deductions.
- (3) Adjusted Gross Production Income for each fiscal year is Total Gross Production Income less Expense.
- (4) Total State Petroleum Revenue for each fiscal year is the sum of Prudhoe Bay and Cook Inlet Oil and Cook Inlet Gas Royalties and Production Taxes, Oil and Gas Production and Pipeline Transportation Property Tax, and Petroleum Corporate Income Tax.

Calculation of State Petroleum Revenue as a
Percentage of Adjusted Gross Production Income
6/83 Forecast Assumptions--30% Case FY 84-87 Using Gross WHV
(million \$)

<u>FY</u>	<u>Total Gross Production Income (1)</u>	<u>Expense (2)</u>	<u>Adjusted Gross Production Income (3)</u>
82	12533.39	1254.10	11279.29
83	12050.25	1563.34	10486.91
84	10598.86	1916.85	8682.01
85	10983.46	2452.79	8530.67
86	11948.50	2795.44	9153.06
87	12670.53	3185.73	9484.80

<u>FY</u>	<u>Total State Petroleum Revenue (4)</u>	<u>Adjusted Gross Production Income</u>	<u>State Petroleum Revenues as a Percentage of Adjusted Gross Production Income</u>
82	3903.37	11279.29	34.61
83	3331.02	10486.91	31.76
84	2974.40	8682.01	34.25
85	3098.61	8530.67	36.32
86	3367.52	9153.06	36.79
87	3579.03	9484.80	37.73

- (1) Total Gross Production Income for each fiscal year is the sum of Prudhoe Bay weighted average oil production volume times Prudhoe Bay weighted average oil gross wellhead value, Cook Inlet weighted average oil production volume times Cook Inlet weighted average oil gross wellhead value and Cook Inlet weighted average gas production volume times Cook Inlet weighted average gas gross wellhead value.
- (2) Expense for each fiscal year is the sum of deductions under AS 43.21 for Prudhoe Bay and Cook Inlet less the Severance Tax, Royalty, and Property Tax deductions.
- (3) Adjusted Gross Production Income for each fiscal year is Total Gross Production Income less Expense.
- (4) Total State Petroleum Revenue for each fiscal year is the sum of Prudhoe Bay and Cook Inlet Oil and Cook Inlet Gas Royalties and Production Taxes, Oil and Gas Production and Pipeline Transportation Property Tax, and Petroleum Corporate Income Tax.

Calculation of State Petroleum Revenue as a
Percentage of Adjusted Gross Production Income
6/83 Forecast Assumptions--Mean Case Using Gross WHV
(million \$)

<u>FY</u>	<u>Total Gross Production Income (1)</u>	<u>Expense (2)</u>	<u>Adjusted Gross Production Income (3)</u>
82	12533.39	1254.10	11279.29
83	12050.25	1563.34	10486.91
84	11349.88	1916.85	9433.03
85	12172.76	2452.79	9719.97
86	13255.54	2795.44	10460.10
87	14305.85	3185.73	11120.12

<u>FY</u>	<u>Total State Petroleum Revenue (4)</u>	<u>Adjusted Gross Production Income</u>	<u>State Petroleum Revenues as a Percentage of Adjusted Gross Production Income</u>
82	3903.37	11279.29	34.61
83	3331.02	10486.91	31.76
84	3163.22	9433.03	33.53
85	3395.72	9719.97	34.93
86	3688.06	10460.10	35.25
87	3982.23	11120.12	35.81

- (1) Total Gross Production Income for each fiscal year is the sum of Prudhoe Bay weighted average oil production volume times Prudhoe Bay weighted average oil gross wellhead value, Cook Inlet weighted average oil production volume times Cook Inlet weighted average oil gross wellhead value and Cook Inlet weighted average gas production volume times Cook Inlet weighted average gas gross wellhead value.
- (2) Expense for each fiscal year is the sum of deductions under AS 43.21 for Prudhoe Bay and Cook Inlet less the Severance Tax, Royalty, and Property Tax deductions.
- (3) Adjusted Gross Production Income for each fiscal year is Total Gross Production Income less Expense.
- (4) Total State Petroleum Revenue for each fiscal year is the sum of Prudhoe Bay and Cook Inlet Oil and Cook Inlet Gas Royalties and Production Taxes, Oil and Gas Production and Pipeline Transportation Property Tax and Petroleum Corporate Income Tax.

State, Federal, and Oil Company Shares
of Adjusted Gross Production Income
6/83 Forecast Assumptions--Mean Case

<u>FY</u>	<u>State Percentage Share</u>	<u>Federal Percentage Share</u>	<u>Oil Company Percentage Share</u>
83	31.76	35.48	32.76
84	33.53	31.24	35.23
85	34.93	29.94	35.13
86	35.25	29.78	34.97
87	35.81	29.53	34.66
88	33.25	32.04	34.71
89	32.51	32.39	35.10
90	32.86	32.90	34.24

State, Federal, and Oil Company Shares
of Adjusted Gross Production Income
6/83 Forecast Assumptions--30% Case

<u>FY</u>	<u>State Percentage Share</u>	<u>Federal Percentage Share</u>	<u>Oil Company Percentage Share</u>
83	31.76	35.48	32.76
84	34.25	30.24	35.51
85	36.32	29.29	34.39
86	36.79	29.08	34.13
87	37.73	28.64	33.63
88	35.27	29.78	34.95
89	34.76	30.01	35.23
90	36.67	29.13	34.20

**EXPLORATION, PRODUCTION AND PIPELINE
TRANSPORTATION PROPERTY TAXES - AS 43.56**

In its First Special Session in 1973, the Eighth Legislature passed the first statewide ad valorem tax on oil and gas properties. The tax as enacted not only set up a state-administered tax on specified categories of oil and gas property, but also set limitations on the power of the municipalities to impose taxes on oil and gas properties in general.

This "hardware tax" is levied at 20 mills against full and true value of the three types of real and personal property: exploration property is to be valued on the basis of what it would bring in an open market between an informed and willing seller and an informed and willing buyer. Production property is valued on the basis of replacement cost less depreciation based on the economic life of the proven reserves. Pipeline property under construction is assessed using its actual incurred or accrued cost as of the date of the assessment, while operating pipelines are ordinarily valued with due regard to their economic value based on the estimated life of the proven reserves then technically, economically, and legally deliverable into the pipeline. If those reserves have an economic life materially shorter than the pipeline's estimated physical life, then the assessed value is its actual cost with depreciation based on the time since the pipeline began full operations plus the remaining economic life of the deliverable reserves. These assessed values are determined as of January 1 each year by the Department of Revenue.

A few types of oil and gas properties are specifically excluded from the coverage of the tax even though they fall within the definitions of exploration, production, and pipeline transportation. For example, pipelines operated as utilities and regulated by the Alaska Public Utilities Commission are excluded from the operation of the tax.

Municipalities may also levy and collect property taxes on the same properties as the state, although the actual assessment of the properties is made by the Department of Revenue. A municipality choosing to levy taxes on these properties may do so only at the same millage as it taxes other properties in its boundaries. In addition, there are specific limitations that restrict the amount of taxes that a municipality may ordinarily collect.

One limitation provides that a municipality may not levy taxes which will result in its total property tax revenues exceeding \$1,500 per capita for its residents. The limitation provides that the total assessed valuation of taxable property in the municipality will not exceed the product of 225 percent of the average per capita assessed full and true value of property in the state multiplied by the number of residents in the municipality. The average per capita assessed full and true value of property in the state is reported by January 15 each year to each municipality by the Department of Revenue.

In addition to the limitations placed on the property taxation of the specified properties by municipalities, the state property tax statute also places other limitations on municipal taxing powers of oil and gas properties generally. For example, municipalities are prohibited from taxing property rights to produce oil and gas, such as oil and gas leases. Taxes on the sale or use of gas or unrefined oil or the sale or use of property, or sale or use of services used in association with the property (except for a retail sales tax on the first \$1,000 of each sale) are also prohibited. In addition, municipalities are also prohibited from imposing taxes measured by income from oil and gas properties or from imposing any other tax or fee pertaining to the oil and gas properties or associated services.

The municipal tax paid on the oil and gas properties assessed by the state may be claimed as a credit by the taxpayer against the state tax on the same properties. If the municipal tax is not paid until after the due date of the state tax payment (June 30), the taxpayer must pay the full amount of the state tax and may apply for a refund equal to the municipal tax when it has been paid.

Both taxpayers and municipalities have the right to appeal the Department's property valuations. A State Assessment Review Board has been established to hear and decide on appeals. The Board consists of five persons appointed by the Governor to serve at his pleasure, each of whom must be knowledgeable of assessment procedures. An owner or a municipality may appeal to the superior court for, and is entitled to, trial de novo of the board's action.

During the 1980 regular legislative session, aircraft and motor vehicles (except those owned by a person whose principal business in the state is the exploration for, production of, or pipeline transportation of gas or unrefined oil and whose operation of the aircraft directly relates to the conduct of that business) were specifically excluded from the state property tax. Similarly, communication facilities were specifically excluded from state taxes during the 1981 regular legislative session.

The tables following illustrate the property tax growth from 1975 thru 1983 in terms of assessed value, gross tax, local credit on taxes paid to the municipalities and net property taxes to the state.

TABLE I

Historical Value by Property Type

<u>Year</u>	<u>Pipeline Property</u>	<u>Production Property</u>	<u>Exploration/Other</u>	<u>Total</u>
1975	685,694,300	559,786,790	42,778,810	1,288,259,900
1976	3,410,735,000	1,119,400,100	92,470,530	4,622,605,630
1977	6,175,903,500	2,214,225,330	102,116,730	8,492,245,560
1978	8,150,225,500	2,805,104,500	121,654,670	11,076,984,670
1979	8,447,413,060	3,338,588,250	160,446,070	11,946,447,380
1980	8,294,045,500	3,684,410,960	187,177,490	12,165,633,950
1981	8,412,404,500	4,404,855,450	360,430,480	13,177,690,430
1982	8,227,052,530	5,713,016,840	489,982,080	14,430,051,450
1983	8,000,708,240	7,624,922,480	457,210,630	16,082,841,350

TAL . II

Distribution of State Property Tax

<u>1981</u>				
<u>Municipality</u>	<u>Assessed Value</u>	<u>Total Tax</u>	<u>Local Credit</u>	<u>Net to State</u>
Unorganized	3,992,227,950	79,844,559	-0-	79,844,559
North Slope	6,297,616,550	125,952,331	105,150,647	20,801,684
North Star	639,604,430	12,792,089	3,581,162	9,210,927
Anchorage	50,612,980	1,012,260	436,043	576,217
Kenai	562,862,700	11,257,254	1,569,841	9,687,413
Valdez	1,620,048,000	32,400,960	10,309,985	22,090,975
Mat-Su	5,627,910	112,558	40,634	71,924
Yakutat	2,032,760	40,655	27,849	12,806
Total	13,170,633,280	263,412,666	121,116,161	142,296,505
<u>1982</u>				
Unorganized	3,850,823,000	77,016,460	-0-	77,016,460
North Slope	7,722,388,820	154,447,776	126,781,997	27,665,779
North Star	618,606,800	12,372,136	4,013,657	8,358,479
Anchorage	60,531,510	1,210,630	436,089	774,541
Kenai	578,465,660	11,569,313	2,027,740	9,541,573
Valdez	1,575,389,000	31,507,780	10,871,602	20,636,178
Mat-Su	2,184,110	43,682	12,240	31,442
Yakutat	2,059,780	41,196	28,219	12,977
Total	14,410,448,680	288,208,973	144,171,544	144,037,429
<u>1983</u>				
Unorganized	3,743,264,300	74,865,286	-0-	74,865,286
North Slope	9,450,158,880	189,003,178	144,625,348	44,377,830
North Star	640,706,260	12,815,725	4,351,448	8,464,277
Anchorage	96,986,770	1,939,735	843,675	1,096,060
Kenai	605,404,110	12,108,082	3,040,101	9,067,981
Valdez	1,519,474,000	30,389,480	17,918,701	12,470,779
Mat-Su	1,626,460	32,529	12,849	19,680
Yakutat	1,997,400	39,948	24,568	15,380
Unalaska	137,940	2,759	1,734	1,025
Total	16,059,836,120	321,196,722	170,818,424	150,378,298

The assessed values for 1981, 82 and 83 do not include audit adjustments or supplemental rolls.

TABLE III

<u>Year</u>	<u>State Assessed Value</u>	<u>Percent Increase</u>	<u>Gross Revenue</u>	<u>Local Credit</u>	<u>Net to State</u>	<u>Percent of Gross to State</u>
1975	1,288,259,900		25,765,198	9,635,032	16,130,617	62.61
1976	4,622,605,630	258.83	92,452,113	24,526,617	67,926,767	73.47
1977	8,492,245,560	83.71	169,844,911	37,527,256	132,317,674	77.90
1978	11,076,984,670	30.44	221,539,593	48,019,417	173,520,276	78.32
1979	11,946,447,380	7.85	238,928,947	66,609,309	172,319,637	72.12
1980	12,165,633,950	1.83	243,312,679	72,900,166	170,412,512	70.04
1981	13,177,690,430	8.32	263,553,807	121,181,057	142,372,750	54.02
1982	14,430,051,450	9.50	288,601,029	144,367,663	144,233,366	49.98
1983	16,082,841,350	11.45	321,656,827	178,178,619	143,478,208	44.61
Est. 1984	18,768,500,000	17.08	375,370,000	194,891,400	180,478,600	48.08
Est. 1985	21,295,500,000	13.46	425,910,000	225,079,400	200,830,600	47.15

SYNOPSIS

Oil and Gas Property Tax Compliance

The primary responsibility of the Petroleum Revenue Property Tax Section is the discovery, valuation and taxation of all oil and gas related property in the State. This includes exploration, production and oil and gas pipeline facilities. The property tax section's staff is made up of one petroleum property assessor, three auditor-appraisers, two appraisers and one accounting technician. Contractural support is also utilized for reservoir and field life determinations and on-site inspections of all facilities.

The magnitude and growth in the values involved can best be understood by reviewing some statistics for the last three years.

1981

	<u>Original Roll</u>	<u>Supplemental Roll</u>	<u>Total</u>
No. of Taxpayers:	136	29	165
No. of Accounts:	590	41	631
Total Value:	\$13,170,633,280	\$7,057,150	\$13,177,690,430

1982

No. of Taxpayers:	144	32	176
No. of Accounts:	633	40	673
Total Value:	\$14,410,448,680	\$19,602,770	\$14,430,051,450

1983

No. of Taxpayers:	159	20	179
No. of Accounts:	645	33	678
Total Value:	\$16,059,836,120	\$23,005,230	\$16,082,841,350

The gross property tax is two percent of the value or:

1981.....	\$ 263,553,809
1982.....	\$ 288,601,029
1983.....	\$ 321,656,827

All oil and gas related property owners file property returns with the Division each year during January and February, reporting property owned and its historical cost. Values are then determined for each property based on market value, replacement value or economic value, depending on the type of property. All valuations must be completed by March 1. The taxpayers are then notified of their valuations, and after a reasonable amount of time for objections and appeals, tax bills are mailed on or before June 1 and due June 30.

Taxpayer objections to the Division generally average about ten to twelve a year and two or three of these will usually appeal the Division's decision to the State Assessment Review Board.

Taxpayer compliance is accomplished through several different techniques, detailed desk audits of individual returns with resultant requests for additional information, on-site property inspections and home office audits.

All production and pipeline facilities are physically inspected every three years and most exploration and oil and gas service company facilities are inspected annually.

A home office audit is performed on major taxpayers every three years. The audit insures that all taxable property located within the State is properly reported and that all associated historical costs are reported.

The following audit information shows the audit changes for 1981, 82 and 83.

1981

Total Value Audited	\$589,492,940
Amount of Change	\$ 15,314,020
Percentage of Change	2.60
No. of Audits	18

1982

Total Value Audited	\$385,671,770
Amount of Change	\$ 24,028,200
Percentage of Change	6.23
No. of Audits	23

1983

Total Value Audited	\$8,590,051,310
Amount of Change	\$ 85,103,820
Percentage of Change	1.0
No. of Audits	16

The property tax section has been in existence since 1974. During the past nine years the section has had the time and opportunity to refine its procedures relative to property valuation, review, inspection and audit. This section does not anticipate any future problems or difficulties operating under existing statutes and regulations.

**OIL AND GAS REGULATION AND CONSERVATION TAX
(AS 43.57)**

Enacted during the First Special Session of the Eighth State Legislature in 1973, the Oil and Gas Regulation and Conservation Tax ("conservation tax") is imposed on oil production only. It is a non-escalating tax of one-eighth of a cent per barrel. As with the production tax, production attributable to a royalty interest of the state, the United States or other tax-exempt entity is not taxed.

The payment and administration of the conservation tax are done in the same manner as the production tax.

Collections under AS 43.57

1973	-0-
1974	28,424
1975	77,482
1976	77,317
1977	53,826
1978	371,152
1979	527,209
1980	622,678
1981	639,741
1982	679,497
1983	706,215
1984	700,000
1985	700,000

OIL AND GAS RESERVES AD VALOREM TAX (AS 43.58)

In 1975 the state found its General Fund balance dwindling while completion of the Trans-Alaska Pipeline was still two years away. Without an infusion of substantial revenues in 1976 and 1977, the state would have been in serious financial trouble. The reserves tax was devised as a method of obtaining needed revenues for the state during Fiscal Years 1976 and 1977. Its passage helped ensure the financial well-being of the state until North Slope oil began to flow in 1977.

Although the reserves tax was an ad valorem tax, it differed from the state's other property tax in at least two major aspects. First, the reserves tax was a revenue raising measure exclusively for the state, whereas the property tax also provided for certain municipal taxation. Second, the reserves tax was imposed on the value of the oil and gas in place (any right or interest to produce oil or gas), whereas the property tax is imposed on the hardware properties used in association with the exploration, production, and pipeline transportation of the oil.

The reserves tax was imposed on the value of a right to produce or recover oil or gas. This included any interest in an oil or gas property or lease, be it a working interest, royalty interest, overriding royalty interest, production payment or net profit interest.

Only those properties that have been discovered for at least five years and which have a viable way to get the oil and gas to market were taxable under the statute.

Taxable properties were assessed on the basis of market value. Because properties with proven reserves are not often bought and sold, their market value was determined by using a capitalized income approach. The net income from the property was first projected for the life of the reserves, using estimates of volumes of oil and gas in the ground which will be recovered, production rates, prices, and expenses. The annual net incomes were then discounted, using a discount factor, to arrive at their present values.

As an interim measure, the reserves tax was a success, generating over \$490 million during its brief life. It expired December 1, 1977, and would be of historical interest only except for the fact that a credit, equal to the amount of the reserve tax actually paid, was applicable against future production tax obligations incurred on those reserves as they were produced. Until the credit was exhausted, the net cash receipts from the production tax were half of what they would have been without this credit feature. These credits were used up by March, 1980.